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Pensions & Investment Age

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Convertible investors fight losses

By Marcia Parker

Major investors in convertible securities are fed up with losing millions of dollars on conversion rights in some takeovers and restructurings, and are threatening to stay on the sidelines unless Wall Street underwriters provide them with adequate protection.

"What we're saying is, 'We're not going to take it anymore,' " said John Calamos, managing director, Noddings-Calamos Asset Management Inc., an Oak Brook, Ill., convertible manager with about $200 million in convertibles under management.

"There has to be some economic value associated with the conversion privilege. There have been some flagrant abuses over the years," he said.

About 20 players like Mr. Calamos want protection against takeovers in which the tendering stock price is less than the conversion price. They cited a dozen cases in which they have suffered, or could suffer, big losses, including:

- The acquisition in June of Grunthal Financial Corp. by Home Group Inc., both New York firms, in which the takeover price was $9.50 per share and the conversion price, $10 per share.
- The pending acquisition of Crazy Eddie Inc., the Edison, N.J., consumer-electronics firm facing buy-out bids from its chairman and Entertainment Marketing Inc., Houston, in which convertible holders stand to lose because the takeover prices are $7 and $8 per share respectively, and the conversion price, $23.125.

Some underwriters are quietly succeeding in getting corporate issuers to include protective clauses in the indentures of new convertible issues. A few recent issuers — such as Burlington Industries Inc., Greensboro, N.C., and Freuhauf Corp., Detroit — employed what many say will become standard: "freeze out" protection guaranteeing convertible investors a fair return on their investments.

Meantime, even as some remedies are being fashioned, the players are debating what the best protection is and who should pay for it. Some convertible investors don't think they should have to pay for the protection, while others aren't convinced the protection is worth the cost.

And in an odd twist, some corporate issuers are accepting the idea of protection as a mini-poison pill, although they don't like to admit it. The protective clauses act as a mild deterrent to raiders, boosting the cost of the takeover because they require the acquiring company to pay convertible holders up front in cash — and they also might have to give bondholders something more to boot.

The convertible managers actively pressing underwriters for protective clauses include Froley Revy Investment Co., Los Angeles, with $700 million in convertibles; Wellington Management Co./ Thorndike, Doran, Paine & Lewis, Boston, which manages $400 million in convertibles; Trust Co. of the West, Los Angeles, with $1.5 billion; and Noddings-Calamos.

They have been joined — although quietly — by executives of a few corporate pension funds that invest in convertibles, such as the $18.2 billion fund of IBM Corp., Stamford, Conn., and the $32.9 billion General Motors Corp. fund, New York.

In recent months, the money managers and corporate pension executives have told top convertible underwriters — Smith, Barney, Harris Upham & Co. Inc; Drexel Burnham Lambert Inc.; Goldman, Sachs & Co.; and Morgan Stanley & Co. — they want protective clauses in new issues.

The remedies range from a reset

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TOKYO GOLD: U.S. and European money managers are starting to get their hands on billions of Japanese dollars. *P&I Age* looks at the ramifications — Page 3.

ON A NEW TRACK: British Rail took a bold step by turning over management of a vast portion of its pension
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technology. For now, investors are thrilling Showscan with a good review to its initial public offering — Page 25.

Twist on 10% rule aired

By Chuck Paustian

A proposal allowing overfunded defined benefit plans to invest more than 10% of assets in employer securities was rejected twice by the Department of Labor, but has stirred interest among pension experts.

The proposal, a new interpretation of part of the Employee Retirement Income Security Act, first was contained in a prohibited transaction exemption request from Thomson McKinnon Inc., New York. Hartmarx Corp., Chicago, subsequently used the proposal in a similar exemption request.

Both Thomson McKinnon, which filed its original application in August 1986, and Hartmarx, which filed its first request in December, were seeking the exemptions to establish pension floor offset arrangements.

Thomson McKinnon officials no longer are pursuing their exemption request, and have filed their intention to terminate the $36.8 million plan and recoup $9 million in surplus assets.

Executives of the Hartmarx plan continue to seek the exemption, but the application no longer contains the proposal to reinterpret the 10% rule (*see related story, page 45*).

Executives of the two companies asked Labor Department officials to reinterpret the portion of ERISA that deals with employer securities. They suggested investments in securities of the plan sponsor be based on the relationship of a plan's assets to its termination liabilities, with assets equal to 90% of the plan's termination liabilities invested in non-employer securities.

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David Walker says the 10% ERISA provision doesn't need reinterpreting.

John Erlenborn says the argument for revision is compelling and appealing.

N.Y. fund boosts real estate

By John Covaleski

NEW YORK — The approximately $36 billion New York State Common Retirement Fund will increase its equity real estate exposure to about 6% from 0.67%, by 1992 primarily through direct investments, said Robert J. Steves, the fund's new assistant deputy comptroller for real estate investments.

Based on its current size, the increased allocation would boost the fund's equity real estate investments to $2.16 billion from $133 million now invested (of $240 million allocated), making it one of the biggest real estate equity investors among U.S. pension funds and the third jumbo public fund to dramatically increase its target.

The $43 billion California Public Employees' Retirement System and the $23.5 billion California State Teachers' Retirement System, both in Sacramento, already have revealed plans to increase their real estate allocations to 10% each (*Pensions & Investment Age*, June 29).

The ultimate size of New York State Common's increase "depends on the market, but to the extent that our real estate portfolio can grow, it will grow," said Mr. Steves, who joined the state fund's New York City office in April from L.F. Rothschild Unterberg Towbin Inc., New York, where he was a senior vice president in municipal finance.

Under Mr. Steves, the state fund has made one new equity real estate investment, committing $25 million to TCW Land Fund I, a closed-end, commingled fund managed by TCW Realty Advisors, Los Angeles, for investment in undeveloped land (*see related story on page 37*).

Mr. Steves said the goal is to invest about 4% of total assets in direct real estate deals, mainly as sole investor. The remaining 2% is

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Pension expense drops 51%

By Sheryl L. Cohen

Implementation of FASB 87 helped slash aggregate pension expense of the Fortune 100 companies 51% in 1986, to $5.3 billion from $10.82 billion in 1985.

Only six of the 100 largest industrial and manufacturing companies (by sales) reported a higher pension expense in 1986 than in 1985, according to Wright Investors' Service, Bridgeport, Conn., which collected the information for *Pensions & Investment Age* from the companies' annual reports.

Financial Accounting Standards Board Statement 87 was cited for much of the dramatic decrease.

Under the accounting rule, when a corporation with an overfunded plan switches to Statement 87, any surplus is amortized over the remaining service years of the employees or 15 years, whichever is less.

Also under FASB 87, corporations are encouraged to use the Pension Benefit Guaranty Corp.'s interest rate assumption, which generally is tied to market rates and normally is higher than the more conservative actuarial assumptions used under the old accounting rule.

In addition, FASB 87 calls for use of the unit credit method for funding liabilities. This reduces pension fund expense, lowering cost in the early years, while raising it later.

Although FASB 87 is credited with the decline in reported pension expense, it is not the first nor the exclusive method used by corporations desiring to issue lower pension expense figures. According to William H.S. Preece Jr., director-corporate finance at Kraft Inc., Northbrook, Ill., corporations conceivably could have dropped their pension expense prior to FASB 87, using a number of different "tricks."

But FASB 87 "forces everybody into a lower expense," he said.

Although some corporations did not implement FASB 87 as part of the 1986 annual report information, compliance was mandated by Dec. 15, 1986.

Excluding the 14 firms moving to a pension income status from a pension expense, Sun Co. Inc., Radnor, Pa. showed the largest decline. The company reported a 96.4% decrease in pension expense, dropping to $3 million in 1986 from $83 million a year earlier.

Richard L. Veith, manager-benefit plans investments, said the FASB accounting rule served as the external factor that transformed the overfunded plan from an expense to a near-credit in 1986.

In addition, Mr. Veith cited the good health of the company and pension plan as an additional reason for the drop.

Although not as dramatic, Mr. Veith said 1987 should bring another drop in pension expense — or even a reversal to a credit.

Our position would be even greater — but not markedly," he said.

Philip Morris Inc., New York, showed a 93% drop in pension expense, second to Sun. The company's expense fell to $7 million from $100 million in 1985. According to a spokeswoman for the corporation, the primary reason was a change in assumption rate.

"I think it is connected to FASB," said Mary Lee Caliman, manager-financial services. "We decided to change the assumption rate for funding as well. Now we're fully funded."

Chevron Corp., San Francisco, Calif., also cited FASB 87, this time as the impetus for its transformation to a company with pension income. Between 1985 and 1986, pension expense declined $187 million, leaving Chevron with an income of $6 million, according to R.G. Williamson, assistant controller.

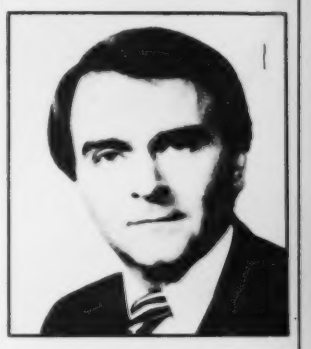
Like Chevron, International Paper Co., New York, also moved from an expense to pension income. In 1986, the corporation reported an income of $38 million, compared with the 1985 expense of $4 million.

"FASB 87 gave us a big pension income. It is certainly the bulk of the impact," said Myra Drucker, director-pension investments.

The largest jump in expense belonged to Shell Oil Co., Houston, which reported an expense of $38 million in 1986, up 58.3% from $24 million in 1985. Controller Mike Sullivan attributed the in-

Continued on page 48

Pension funds, balance sheets and income: Page 40



Sandy Lincoln of Mercer-Meidinger-Hansen says yield managers lead the pack.

Yield style on a roll in market

By Marlene Givant

NEW YORK — Yield managers — historically high performers in neutral or down periods — have turned out surprisingly strong returns this bull market.

"I think it's fair to say this is about as long a run for one style that we have seen in market history. Year by year over the past five years, the high-yield group has done better than managers using small-cap, low-yield stocks," said Sandy Lincoln, managing director in the Deerfield, Ill., office of William M. Mercer-Meidinger-Hansen Inc.

And those returns have pleased pension fund clients.

"It was not a conscious decision to employ a 'yield manager,' " Vernon Strickland, director of the $1.9 billion Louisiana Employees Retirement System, Baton Rouge, said of the firm's hiring Duff & Phelps Investment Management Co. almost two years ago. "The board thought more managers with more management styles would be the appropriate thing to do."

Chicago-based Duff & Phelps, which manages a balanced account for the system, emphasizes low price-earnings, high dividend income and above-average return on equity.

"Their returns were quite respectable. We're satisfied customers," he said, adding returns have beaten the market

Continued on page 44

$200 'exit charge' proposed

House panel seeks new per-participant termination fee

By Nicky Robertshaw

WASHINGTON — Employers that terminate a defined benefit pension plan during the next three years would have to pay an exit charge of $200 per participant to the PBGC under a proposal by a House subcommittee.

The premium, which would be required for plans terminating on or after July 1, 1987, would apply whether a plan is underfunded or overfunded. Plans terminating after 1990 would pay exit costs that would be calculated as a portion of the Pension Benefit Guaranty Corp. debt at the time.

The exit charge was coupled with a flat-rate PBGC premium of $19 per participant per year, up from the current $8.50 premium.

The subcommittee proposal also would dramatically accelerate amortization of actuarial gains and losses to five years from the current 15 years. This provision could cause a dramatic increase in pension contributions when markets plunge.

The House Education and Labor Committee Subcommittee on Labor-Management Relations approved the proposal, as well as a surprise portability amendment, on July 23. Full committee consideration is expected this week.

The subcommittee's action came a day after the House Ways and Means Committee approved an alternative minimum funding measure that includes a variable-rate PBGC premium. That committee slightly altered a proposal from one of its subcommittees, lowering the base premium under the variable-rate plan to $14 per participant per year from $15; it retained a $50 premium cap (*Pensions & Investment Age*, July 13).

It also changed the asset threshold after which the funding charge is required to 100% of vested benefits rather than 110%.

Under the Education and Labor subcommittee's proposal, an employer would have to pay the larger of current funding requirements law or an amount sufficient to cover plan benefit payments plus interest on the plan's unfunded vested liabilities, subject to a complex cap.

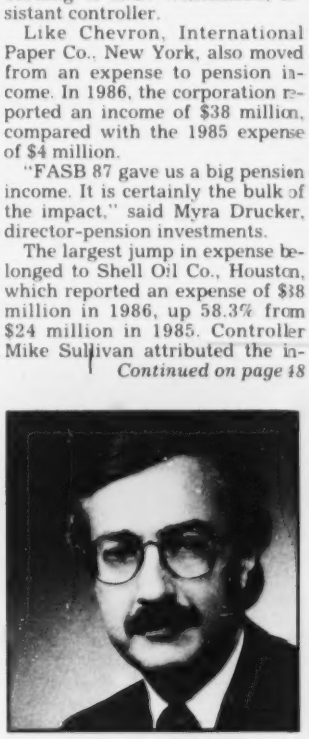
Both panels' proposals are moving ahead as part of the federal budget reconciliation. The House Ways and Means Committee, in its quest to raise $65 billion in revenue in the next three years, wants $500 million to $100 million for fiscal 1988 to come from the pensions area.

The exit-fee proposal once again puts management and labor on opposite sides of the fence.

From the employers' perspective, the $200-per-participant exit fee proposal is expensive and would generate more money than the PBGC needs, said Stuart J. Brahs, executive director of the Association of Private Pension and Welfare Plans, Washington.

"Clearly you have got to provide some incentive to keep employers in the system," Mr. Brahs said, pointing to the group's concern that changes in the law could make it difficult, if not impossible, for employers to stay within the defined benefit system.

But Alan Reuther, associate general counsel for the United Auto Workers, said the exit charge is preferable to the Ways and Means proposal, which labor sees as hitting hardest those companies that can least afford more stringent premiums and funding requirements.



Stuart J. Brahs said the exit fee would generate more money than the PBGC needs.

While conceding the termination funding charge portion of the proposal has "conceptual merit," David Walker, deputy assistant secretary of labor, said the administration strongly opposes the proposal.

"We will continue to support a

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The *P&I Age* monthly indexes track the changes in the Standard & Poor's 500 stock index, the Frank Russell Co.'s Russell 3000 stock index, the Ryan Index of fixed-income securities and the Shearson Lehman Government/Corporate bond index.

P&I Age May indexes

	Latest mo.	Year to-date	Trailing 12 mos.
S&P 500	5.06	27.49	25.21
Russell 3000	4.55	24.71	19.82
Ryan Index	1.32	−1.80	1.74
Shearson Lehman Gov't./Corp.	1.24	−0.44	4.68

Source: Rogers, Casey and Barksdale Inc., and Frank Russell.

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Western advisers tap into $16 billion from Japanese

By Joel Chernoff and Marlene Givant

Non-Japanese money managers are acting as advisers on or running the investment of $16.84 billion in Japanese institutional and individual assets, according to a survey by *Pensions & Investment Age*.

Unlike some manufacturers, U.S. money managers have obtained access to Japanese markets, even though they usually must establish ties with Japanese firms to pull in clients.

Largely in the past 18 months, non-Japanese managers — led by U.S. and European firms — have started to make significant inroads into the Japanese investment market as investors there increasingly are looking to foreign markets to invest their burgeoning capital and the Japanese government is loosening restrictions on investment (*see related story, page 4*).

Accounts garnered by "gaijin" — foreign — firms are invested in local and overseas markets; geographic breakouts are not available. But the Japanese clearly are looking to other markets to absorb their surpluses. Last year, Japan's current account surplus exceeded $85 billion and this year's surplus is expected to be near $75 billion, according to Salomon Brothers Inc., New York.

There is no question the amount of Japanese assets becoming available to foreign managers is huge. The growing "tokkin" — Japanese corporate liquidity reserves — represented some $93 billion at the end of April, according to Daiwa Securities Co. Ltd., Tokyo. Unit trust assets — the equivalent of mutual funds — stood at $160 billion, and the fund trust market, comprising other institutional and corporate assets, was $73 billion as of March 31, said George Curuby, Curuby & Co., a Tokyo-based consultant.

Meanwhile, the Japanese private and public pension market — valued around $310 billion, according to InterSec Research Corp., Stamford, Conn. — is the fastest growing in the world

"Obviously, pension money is what all foreigners are waiting to get their hands on," said Jonathan Taylor, marketing director of Baring International Investment Ltd., London. Now, only trust banks, Daiwa Bank and insurance companies can manage Japanese pension assets.

The vast amounts of surplus assets generated through foreign trade, the yen's high value and lower volatility and price-earnings ratios in the U.S. market have caused the Japanese to invest in the United States. In addition, a need to become competitive internationally in the investment area and to provide better long-term rates of return have resulted in an intense drive by the Japanese to both learn the state-of-the-art investment technology and invest abroad, observers say.

Some argue Japan's Ministry of Finance — by loosening restrictions on how much Japanese institutions can invest abroad and opening the market to foreign trust banks and investment advisers — has created a "national mission" of learning the investment management business.

"It's an economy that's shifted from MITI to MoF," said Anne Cabot, manager of marketing for Sanyo Securities Co. Ltd., Tokyo, referring to the ministry's growing importance compared with the Ministry of International Trade & Industry.

Efforts to pierce the Japanese market, as well as to invest on behalf of domestic clients, have led to a variety of joint ventures by U.S. and European money managers with Japanese firms, as well as establishment of Japanese subsidiaries and offices.

The biggest and best-known of the investment managers have picked up Japanese business. Topping the list are three of the nine foreign banks with Japanese trust subsidiaries: Bankers Trust Co., with $2.65 billion in Japanese assets under management; Chemical Bank, with $1.5 billion; and J.P. Morgan Co., $1 billion. All are based in New York.

Of the non-trust managers, Morgan Grenfell Asset Management Ltd., London, led the pack with $750 million; Mercury Asset Management, $678 million; T.T. Capital Management Ltd., London, $600 million; CIGNA Asset Advisers Inc., Hartford, Conn., $525 million; and Hill Samuel Group PLC, London, had $520 million.

Some $16.84 billion is run either directly by the firms or through a joint venture with a Japanese firm, which may provide marketing, research or distribution.

In addition, non-Japanese managers run a portion of some $2.28 billion in funds that have multiple managers, including Japanese firms, and where breakouts of each firm's assets under management were not available (*see accompanying table*).

The tables, however, do not include mutual funds that are sold worldwide. Merrill Lynch & Co., New York, for example, manages hundreds of millions of dollars in mutual funds with significant Japanese investment, according to Richard Reller, vice president of Merrill Lynch Asset Management Inc., Princeton, N.J.

Many of the joint ventures have been directed toward individual investors in Japan, but now products are appearing for institutional investors as well.

- Batterymarch Financial Management, Boston, has two joint ventures with Japanese firms: a $60 million-plus mutual fund investing in U.S. stocks set up last year with Yamaichi Securities Co. Ltd., Tokyo, and a $250 million conservatively managed mutual fund with Taiyo Investment Trust and Management Co., Tokyo.
- Wells Fargo Investment Advisors, San Francisco, advises on a stock index fund based on the Standard & Poor's 500 and marketed to individual Japanese investors by Nikko Securities Co. Ltd., Tokyo. Within the past six months, it has pulled in about $300 million, said Jeff Skelton, executive vice president with Wells.
- U.S. firms are handling the U.S. portion of global funds marketed in Japan. The Putnam Cos., Boston, run the $28 million U.S. portion of a $294 million global fund with six different investment options, said Stanford Brainerd, senior executive vice president at Yamaichi International America Inc., New York.
- Aimed at the Japanese institutional market, nine foreign trust banks are operating subsidiaries in Japan, often in joint ventures with Japanese partners.

For example, Morgan Trust Bank, Tokyo, is responsible for $1 billion in Japanese institutional assets. J.P. Morgan Investment Management Inc.'s New York and London offices invest 70% of the assets in foreign markets; the remainder is invested in local markets by the Tokyo office, said George E. Austin, managing director of the New

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U.S. firms serve as mentors

As the Japanese sent hordes of technicians to Detroit in the 1950s to study how U.S. automakers manufactured cars — only to beat Americans at their own game two decades later — so they now are intensively examining U.S. and European investment management techniques.

Through a variety of arrangements, the Japanese are educating themselves on the latest investment management technology, with a heavy emphasis on quantitative techniques including use of derivative instruments and dynamic hedging.

So far, the Japanese primarily aim to use these applications in their own market, but initial efforts at investing overseas outside of government bonds are taking hold.

"As always, the agenda is a dual one: to invest money more efficiently and to learn how to invest money themselves," said Dean Williams, a trustee with Batterymarch Financial Management, Boston.

Numerous observers said the Japanese cannot grasp how U.S.

Continued on page 50

Japanese assets under management by non-Japanese managers

Manager	Japanese relationship	Discretionary or advisory assets
ABD Int'l Mgmt.	direct	150
Alliance Capital Mgmt.	direct	232
Australia/New Zealand Banking	Daiwa	94
Bankers Trust	Sumegin Bank	2,650
Banque Indosuez	direct	100
	Nikko	NA*
	Nomura	8
Banque Nationale de Paris	Daiwa	NA*
Barclays Bank	direct	560
Baring Int'l Investment	direct	145
	Daichi	50
	Daiwa	130
	Nikko	100
Batterymarch Financial Mgmt.	Taiyo	250
	Yamaichi	60
Capital Guardian Int'l	Nomura	175
Capital Mgmt. Int'l	Nomura	35
Chase Investors Mgmt.	direct	40
	Daiwa	80
	Yamaichi	147
Chemical Bank	direct	1,500
Citicorp Investment Mgmt.	NA	419
CIGNA Asset Advisers	direct	525
County Investment Mgmt.	direct	160
	Daiwa	NA
Credit Commercial de France	Nikko	50
Credit Suisse Trust	Mitsui Trust	762
Dimensional Fund Advisors	Nomura	75
Dreyfus	Daiwa	155
	Daiwa	NA*
Fraser Green	Nikko	10
G.T. Capital Mgmt.	direct	350
	Nikko	NA*
	Nomura, others	250
Hill Samuel Group	direct	520
IDS Equity/Fixed Income Advisors	Daiwa	NA*
Ivory & Sime Int'l	Nikko	30
	Sumitomo Life	100
	Sumitomo Trust	40
	Yamaichi	60
Jardine Fleming Investment Mgmt.	Yasuda Trust	500
Korean Trust	Yamaichi	45
M.&G. Investment Mgmt.	Yamaichi	89
Manufacturers Hanover Investment	direct	399
	NA	126
Mercury Asset Mgmt.	direct	378
	New Japan	100
	Nikko	110
	Yamaichi	90
Merrill Lynch Asset Mgmt.	Nomura	500
MIM Britannia	direct	500
	Daiwa	NA*
	Yamaichi	NA*
J.P. Morgan	direct	1,000
Morgan Grenfell Asset Mgmt.	NA	750
Murray Johnstone	Yamaichi	280
Paribas Asset Mgmt.	direct	400
Prudential Asset Mgmt.	Nikko	100
Prudential Portfolio Managers (U.K.)	Nomura	190
Putnam	Yamaichi	28
Robeco	Nikko	NA*
Ross and Roll Asset Mgmt.[1]	Daiwa	89
N.M. Rothschild Asset Mgmt.	Nomura	NA*
Royal Trust	Nikko	25
Schroder Capital Mgmt. Int'l	NA	NA
Scudder Stevens & Clark	Nikko	NA*
	Taiyo	NA*
Societe General	Yamaichi	NA*
Union Bank of Switzerland	direct	570
Wardley Investment Services Int'l	direct	167
	Nikko	20
Wellington Mgmt.	Nomura	25
	Yamaichi	50
Wells Fargo Investment Advisors	Nikko	300
TOTAL		16,843

NA* the manager runs a portion of a multimanager fund; breakout by manager is not available (see table, page 50)
[1] Ross and Roll provides software for investment program; management is by Daiwa International Capital Mgmt.
Source: *Pensions & Investment Age*

Denver Investment Advisors, Inc.

633 Seventeenth Street: Suite 1800
Post Office Box 17487
Denver, Colorado 80217

Dennis E. Larkin
Vice President
(303) 293-5588

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Divestiture ruling disappoints execs at Baltimore fund

By Trudy Ring

BALTIMORE — The Baltimore Employees' Retirement Systems almost certainly will appeal a court decision upholding the city's South Africa divestiture ordinance, said Ernest J. Glinka, retirement systems administrator.

Judge Martin B. Greenfeld ruled July 17 in Baltimore Circuit Court the ordinance is constitutional. The ordinance requires the three systems to divest themselves of securities in all companies doing business in South Africa.

The $1.2 billion systems have about $400 million in these securities. The ordinance called on the fund to begin divestiture last Jan. 1 and complete it within two years. During litigation, the fund has used suspension provisions of the ordinance to avoid divestiture.

Pension fund officials argued the ordinance conflicted with the interstate and foreign commerce clauses of the U.S. Constitution, conflicted with the foreign affairs power of the federal government, was pre-empted by federal law regarding South Africa and impaired contracts existing between the systems and their participants and beneficiaries.

Judge Greenfeld ruled these claims were without merit. Among his findings were:

- The city, like a private investor, can decide with what companies to deal without impinging on the interstate commerce clause.
- The ordinance's influence on foreign commerce cannot be characterized as more pervasive than other measures, such as franchise taxes, upheld by other courts.
- The federal government's power to conduct foreign affairs does not mean a state or local government may not establish moral guidelines when investing its own funds for proprietary purposes.
- If Congress had intended to invalidate state and local divestiture laws when it approved economic sanctions against South Africa, the sanctions legislation likely would have contained express language to that effect.
- The projected effect of divestiture upon investment return is so small it could not impair contracts for promised benefits the retirement systems have made with their members.

The retirement systems' trustees were meeting late last week to discuss appealing the ruling to Maryland Appellate Court, Mr. Glinka said. He said he was "99.9% certain" they would appeal it. ■

Corrections & clarifications

- An article on foreign assets under management by the **50 largest international money managers** in the June 29 issue incorrectly stated the total. The correct number is $45.809 billion.
- A story on the **Government National Mortgage Association**'s troubled mobile home portfolio in the July 13 issue incorrectly identified the underwriters for General Electric Credit Corp.'s $59 million issue of mobile home loan-backed securities. Kidder Peabody & Co. was sole underwriter.
- The Current Accounts section of the July 13 issue of *Pensions & Investment Age* incorrectly identified the manager of a balanced account for the Chicago Sun-Times. The correct manager is **Investment Advisers Inc.**, Minneapolis.
- **Wilshire Asset Management**, Santa Monica, Calif., was omitted inadvertently from *Pensions & Investment Age*'s July 13 ranking of top index fund managers. Wilshire is the nation's 12th largest index fund manager, with $2.8 billion in tax-exempt assets as of May 31, all in domestic equity index funds.

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Assets increase 65% for top 100 advisers

By Sheryl L. Cohen

Assets under management by the 100 largest investment institutions grew 65.5% to about $3.066 trillion from $1.852 trillion in the 21 months ended Dec. 31, a *Pensions & Investment Age* survey shows.

A complete listing of the 100 institutions and their subsidiaries begins on page 49.

The 10 firms with the most assets under management as of Dec. 31 represented 31.58% of the total, with $968.346 billion, whereas the top 10 as of March 31, 1985, represented 32.3% of the total, with $598.742 billion.

Insurance companies were most represented in the top 10 in both surveys. Prudential Insurance Co. of America, Newark, N.J., was first in both surveys. The company and its subsidiaries grew to $177.466 billion from $86.368 billion.

The 105.5% increase is due to a number of events, including the bull market and the establishment of three subsidiaries, said Susan O'Brien, manager of marketing at Prudential.

American Express Corp., New York, was second on this year's list, moving up from fifth. American Express reported $140.021 billion assets under management.

New to *P&I Age*'s top 10 are Wells Fargo & Co., San Francisco, and FMR Corp., Boston.

Wells Fargo made the largest leap on the chart, to eighth place from 26th. Assets under management grew to $63.783 billion from $22.433 billion.

The increased popularity of indexing and the acquisition last year of Crocker National Bank contributed to the bank holding company's growth, said Dave Demarest, vice president.

FMR, which includes Fidelity mutual funds, ranked seventh, up from 15th. Assets under management grew to $65.12 billion from $29.83 billion. According to Roy Lyons, senior communications specialist, the growth is based on several things, including the stronger securities market, an expanded asset base, growing brokerage revenue and strong sales of low-load funds.

Investment managers held 34 of the 100 positions in this year's survey, the greatest number of the five sectors included. They represented 37.1% of the total with $1.138 trillion. Although the 16 insurance companies ranked third in number, they had the second highest percentage of assets under management, 25.28%. They collectively held $775.226 billion.

Banks and trust companies, which numbered 30, held $725.898 billion assets under management, representing 23.67%. The seven corporate funds included in the survey captured 4.92% of the total with $151.12 billion assets under management, while 13 state and local government funds reported $264.259 billion, 8.61% of the total.

No internally managed pension fund made the top 10, but California Public Employees' Retirement System, Sacramento, was the highest-ranked one, moving to 20 from 21 in 1985. The fund reported $40.72 billion under management.

Three banks reported a decline in assets under management. The largest drop, $3.99 billion, was reported by First Interstate Bancorp, Los Angeles, and the smallest, $521 million, by Harris Bankcorp, Chicago. First Chicago Corp. reported $13.6 billion as of Dec. 31, down $3.69 billion from $17.29 as of March 31, 1985.

On the other hand, Aetna Life & Casualty Co., Hartford, Conn., increased its total assets under management to $104.556 billion, from $76.971 billion, a 35.83% increase.

The jump, which pushed Aetna up a notch to third place, is attributed to a "remarkable" growth in sales, according to Barbara Aurell, manager-employee benefits division.

High returns on mutual funds and the attractiveness of stocks and bonds have led to the dramatic growth of Franklin Funds, San Francisco, according to Edward McVey, vice president-national sales manager. Franklin jumped to 31 from 81. Assets under management increased to $32.24 billion from $8.23 billion. ■

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Corporate credit improves in 2nd quarter

By Brad Rudin

NEW YORK — Corporate credit ratings improved during the second quarter, the result of the weak dollar, a slackening in the pace of corporate restructurings and improved productivity.

Downgrades as a percentage of total rating actions dropped at three of the five national rating agencies.

Downgrades accounted for 55% of Standard & Poor's Corp.'s second-quarter rating actions vs. 74% of the New York-based agency's first-quarter decisions; at Moody's Investors Service, New York, downgrades were made in 60% of their second-quarter actions, down from 66% in the first quarter; and at Fitch Investors Service Inc., New York, downgrades accounted for 54% of the second-quarter actions vs. 71% in the first quarter.

But at Duff & Phelps Inc., Chicago, downgrades rose to 63% vs. 60%; and at McCarthy, Crisanti & Maffei Inc., New York, they rose to 83% from 53%.

The dollar amount of upgraded debt underscored improvement in corporate credit quality. Second-quarter upgrades at Moody's affected $49 billion of corporate debt while downgrades affected $41 billion of these obligations. Moody's reported the dollar amount upgraded by the agency exceeded the amount downgraded for the first time since the second quarter of 1986.

In the first quarter of 1987, $9 billion of debt rated by Moody's was affected by upgrades while $61 billion was affected by downgrades.

Moody's cited the Ford Motor Co., Dearborn, Mich., as a major rating change of the second quarter, noting in a statement the higher rating for some $25 billion of company debt resulted from "productivity improvements and continuing ability to generate cash."

It also mentioned the higher rating given to Unisys Corp., Detroit, which affected $3.8 billion of outstanding debt. Unisys' higher rating reflected the company's "accelerated progress in consolidating Burroughs and Sperry."

Preliminary second-quarter figures offered by Standard & Poor's show that agency raised the ratings on $31 billion of debt, close to the $38 billion affected by downgrades. "That is an improvement from the first quarter, when $12 billion of upgraded debt was overwhelmed by $63 billion downgraded," according to an article in Standard & Poor's Credit Week.

The improved ratio of downgrades to upgrades also was cited in Credit Week, which put S&P's second-quarter ratio at 1.22-to-1. That ratio of downgrades to upgrades is the most favorable since the fourth quarter of 1984. In the first quarter of 1987, the ratio stood at 2.82-to-1.

The weakened dollar should receive credit for the improved ratings, said Neal M. Soss, chief economist at First Boston Corp., New York. U.S. companies involved in world trade have benefited from the more expensive imports and cheaper exports created by the devalued dollar, he said.

"You can see it in their orders, their employment patterns, their profits and now you can see it in their ratings," Mr. Soss said. "I think that will persist, not in the sense that the dollar will get even cheaper, but (in the sense that) the cheaper dollar has benefits still to confer in the future."

S&P, in its Credit Week summary of the second-quarter rating changes, commented on the improvement in the industrial sector, noting downgrades in that sector ran four times upgrades in 1986 and the first quarter of 1987 while in the second quarter, the 33 upgrades came close to the 34 downgrades.

Rising stock prices largely are responsible for the improvement of credit quality because the bull market makes it more expensive for raiders to make acquisitions, said Byron Klapper, a senior vice president at Standard & Poor's. Mergers and acquisitions have been a leading cause of credit quality deterioration.

Loan loss reserves established by money center banks to protect themselves from default by Latin American debtors also have contributed to the stabilization of credit ratings, Mr. Klapper said.

S&P is optimistic about the future of credit quality, he said. "We see the trend continuing favorably through the year."

Moody's, however, offered a less sanguine prediction about credit quality. The improved second-quarter results are likely to be an aberration, Harold H. Goldberg, rating committee chairman, said in a statement. "Upgrades also outpaced downgrades during the second quarter of 1986, but we went on to finish the year with record declines in credit quality." ■

Corporate credit rating changes

	2nd quarter 1987		1st quarter 1987		2nd quarter 1986	
	Up	Down	Up	Down	Up	Down
Duff & Phelps	16	27	21	31	19	28
Fitch Investors Service	12	14	7	17	11	12
McCarthy, Crisanti & Maffei	4	19	8	9	13	15
Moody's Investors Service	34	51	25	50	67	56
Standard & Poor's	65	79	28	79	55	100

Source: Data from the rating agencies

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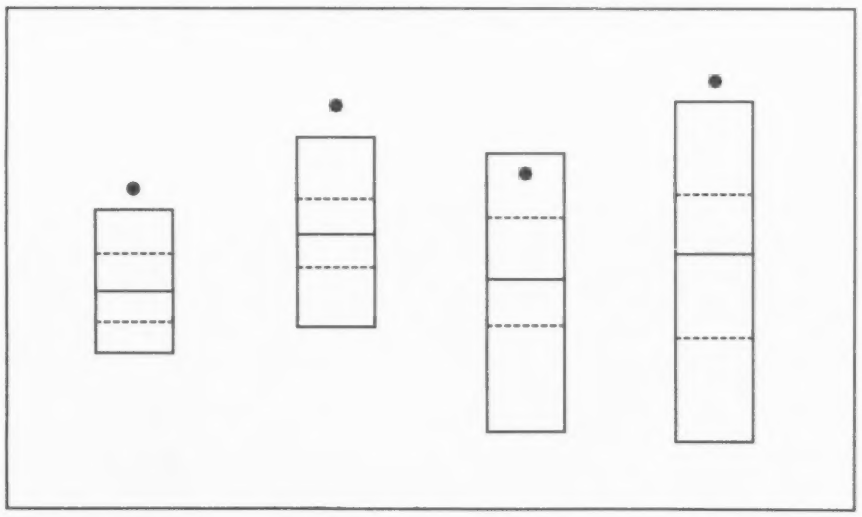

	10 Years	5 Years	3 Years	1 Year
CCI Return (●)	19.9	26.4	21.9	27.3
SEI Ranking*	3	1	7	1
S&P 500	13.8	19.9	18.5	18.7

Annualized Rates of Return
**Source: SEI Funds Evaluation*
***Past results do not assure future performance.*

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Cash Management

Small firms will tap paper issuing pool

By Chuck Paustian

Three New Haven-based companies are among those expecting to obtain financing through a commercial paper issuing pool set up as an alternative capital source to conventional bank borrowing and industrial development bonds.

Kramer's of New Haven, Connecticut Chair Car Inc. and The Park Plaza Hotel all have applied for financing from the commercial paper pool, set up by American Development Finance Inc., Washington.

American Development Finance's commercial paper issuing pool is the latest attempt to provide smaller companies with low-cost financing via the commercial paper market.

The Cooperative Association of Tractor Dealers Inc., Chevy Chase, Md., already has a commercial paper pool for small borrowers under way, while Capital Funding Partners, Chicago, is setting one up (*Pensions & Investment Age*, Sept. 15).

The American Development Finance pool, called the Enterprise Capital Fund, was established to provide loans to small and medium-size corporations nationwide for projects sponsored by local economic development agencies.

In addition to requiring the sponsorship of an economic development agency, loans also must be backed by real estate and most will require a separate credit enhancement, such as a bank letter of credit.

Although the pool has yet to issue any commercial paper, the initial size of the program is set at $100 million, with Shearson Lehman Brothers Inc., New York, serving as dealer and financial adviser.

The commercial paper program is backed by a letter of credit from the New York branch of Banque Indosuez, the seventh largest bank in France. Based on the credit of the bank, the commercial paper should carry the highest ratings for commercial paper, according to Shearson Lehman and American Development Finance executives.

American Development Finance is a non-profit corporation formed under the guidance of the National Association of State Development Agencies.

"For our borrowers, we're cheaper than what's available through conventional means," including bank borrowings, said Ruth E. Goldberg, executive vice president and chief operating officer at American Development Finance. She added the process also is less complicated than tax-exempt financing, although not as cost effective.

American Development Finance estimates the total cost of its loans will be between 50 and 100 basis points more than the prime rate, compared with the 200 to 300 basis points above prime at which these companies normally borrow.

In addition, the Tax Reform Act of 1986 reduced the possibility of obtaining financing through the issuance of industrial development bonds. The law lowered the amount of the bonds issued in each state and restricted the use of the proceeds to manufacturing concerns.

"It's a very viable alternative for local businesses to obtain financing," said Lawrence Liebman, an attorney and president of Kramer's of New Haven, a women's apparel and furrier company, which hopes to obtain a $2 million loan, backed by a combined store and office building.

"It's very attractive for me," he said.

Mr. Liebman also said he doesn't think the program will give him any additional leverage in his commercial bank relationships. "You have to be a pretty good credit to get this," he said, adding the banks already were reflecting that credit quality in their lending rates.

Executives of Connecticut Chair Car and Park Plaza Hotel were unavailable for comment.

According to Sal Brancati, executive director of the New Haven Community Investment Corp., one of two development agencies sponsoring local loan applications, the financing from the commercial paper pool is very competitive with other capital sources.

"It's a very effective program," Mr. Brancati said. "We tried to find the flaw and in fact we couldn't find any."

Ms. Goldberg said borrowers will pay about 70 basis points above the cost of the commercial paper to cover various fees, including 50 basis points for Banque Indosuez; 12.5 basis points for Bankers Trust Co., New York, the program's trustee; and 5 basis points for American Development Finance's administrative costs.

Other payment options, such as one that offers some protection against interest rate volatility, are available, Ms. Goldberg said. The costs and risks of these schedules vary and are borne by the borrower.

She said the program will issue its first commercial paper sometime this month, once the first loan application receives final approval.

"All the hard parts, in terms of establishing the program, are done," she said. "The day we need the money, that's when we will sell the paper." ■

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>
> Ruth E. Goldberg,
> American Development Finance

Payden & Rygel index of short maturity assets*
(for month ended June 30)

	June 1987	Quarter ended 6/30/87	Year to date	12 months ended 6/30/87	Yield level monthly change*
90-day					
U.S. Treasury bill	0.4782	1.4288	2.8852	5.8841	5
Domestic C.D.	0.6064	1.5928	3.1282	6.3463	−12
Eurodollar C.D.	0.6284	1.6447	3.1625	6.4769	−15
180-day					
U.S. Treasury bill	0.0460	1.4921	2.9091	6.0711	−25
Domestic C.D.	0.6829	1.3945	2.8003	6.0760	−21
Eurodollar C.D.	0.7156	1.4921	2.8186	6.2035	−25
1-year					
U.S. Treasury note	0.6709	1.0982	2.3985	5.9110	−11
2-year					
U.S. Treasury note	1.0145	0.1359	1.3654	5.5092	−21

*Figures are unannualized total returns. Year-to-date and 12-month figures linked monthly. Ninety- and 180-day Treasury bill yield level changes on discount basis.
*Basis points.
Source: Payden & Rygel, Los Angeles

Pitman Co., a distributor of the graphic arts supplies shown here, is consolidating collection and disbursement services at a saving of $2 million. As a result, the company will have to do less borrowing.

Pitman moving cash services to Continental Bank

By Barry B. Burr

SECAUCUS, N.J. — Pitman Co. expects to save almost $2 million by eliminating compensating balances and improving availability as it drops 12 banks and moves to a single bank for its collection and disbursement, according to Gerald R. Knueven, treasurer.

With the additional cash, the company will have to do less borrowing, he said.

"Now we have $1.9 million in tax-exempt (securities invested)," he added. "Last year we didn't have any investments; we were borrowing."

Pitman is moving its collection and disbursement, both for payroll and nonpayroll, to Continental Illinois National Bank & Trust Co., Chicago.

The company, a graphic arts and printing supplies distributor with $200 million in annual sales, also will move its cash concentration account to Continental.

Pitman's decentralized operations, with 13 branch distribution offices, strained its former system of decentralized cash management banks.

As a decentralized operation, he said, some regions would have excess cash while others would need to borrow. Because of "the communications and timing bureaucracy," the excess balances couldn't always be made available, so some regions would have to borrow on their lines of credit with their regional banks.

By centralizing its banking services, he said, Pitman easily can make any excess funds from one region available to another.

"We realized there were pockets of money" maintained as balances with the banks the company couldn't use, added John Cunningham, cash manager and inventory manager.

"Every bank required balances," ranging from $50,000 to $100,000.

Concentration and regular, or nonpayroll, disbursement accounts had been with First Jersey National Bank, Jersey City, N.J.; Trust Co. Bank, Atlanta; and Continental.

Pitman had 10 lockbox banks, including Continental and two other banks that also handled disbursements and concentration. Seven other banks handled lockbox collections only, including Wachovia Bank & Trust Co., Charlotte, N.C.; Norwest Bank, Minneapolis; United Missouri Bank, Kansas City, Mo.; First National Bank of Boston; Sun Bank, Tampa; Hamilton Bank, Philadelphia.

In addition, Pitman had three payroll disbursement accounts, all with small local banks that didn't have any lockbox accounts.

Of the $2 million available cash Pitman picked up since moving to Continental, he said $400,000 to $600,000 came from eliminating compensating balances, $500,000 from increased availability and about $1 million from more efficient movement of funds by eliminating the banks.

Besides dropping the banks for cash management services, he said Pitman ended all lines of credit with the banks.

He said the company is keeping only a $3.5 million line of credit with Continental, though it uses it little, if at all, since the new system has been put in place.

"They sold themselves out of some lending," he said of Continental. "But we will need it down the road" as the company grows.

Mr. Knueven said the changes, begun in January, were completed this month.

Pitman has a lockbox for each of its 13 branch offices, though some of the collection points are located in the same city and handled by the same bank. Continental's mail-intercept network provides 10 lockbox sites in or near the same cities the company had with its old system. The lockbox receipts, all processed daily in Chicago, are picked up at the sites by Continental's couriers four times daily, Mr. Knueven noted.

Even though the collections are centralized by one bank, Mr. Knueven said Continental maintains the decentralized lockbox receipt data for each of Pitman's branch offices, sending the information back daily.

He noted each branch is responsible for accounts receivable accounting and for collecting payments, including overseeing delinquent accounts and credit relations with customers.

Continued on page 34

Pension funds, balance sheets and income

Company	Total pension liabilities $ mil.	Vested benefits $ mil.	Fund assets $ mil.	Vested funding status $ mil. 1986	Vested funding status $ mil. 1985	Assumed rate of return (%) 1986	Assumed rate of return (%) 1985	Net worth $ mil.	1986 vested funding status as percentage of net worth	Pension assets as percentage of corporate assets	Corporate assets $ mil.	Pension expense $ mil.	Operating income $ mil.	Pension expense as percentage of adjusted operating income
Abbott Labs	348.6	317.7	698.6	380.9	189.2[2]	10.0	7.9[2]	1,778.9	21.4	39.3	3,865.6	18.1	−14.5	878.6	−1.7
Allied-Signal	3,389.0	3,105.0	4,134.0	1,029.0	868.0	9.0	8/9.0	3,670.0	28.0	112.6	11,268.0	36.7	93.0	942.0	9.0
Aluminum Co. Amer.	2,375.0	2,219.3	2,198.5	−20.8	95.2	8.0	8.3	3,655.6	−0.6	60.1	6,766.7	32.5	89.0	419.8	17.5
Amerada Hess	97.5[1]	91.8[1]	175.6[1]	83.8[1]	75.5[2]	8.0[1]	9.0[2]	2,020.1	4.1	8.7	4,914.1	3.6	0.7	−73.1	M
American Brands	868.6	831.9	1,147.4	315.5	1.6	9.0	8.6	2,540.9	12.4	45.2	5,362.8	21.4	14.9	777.1	1.9
American Cyanamid	793.9[1]	781.6[1]	870.3[1]	88.7[1]	11.0[2]	8.5[1]	8.5[2]	1,720.6	5.2	50.6	3,667.0	23.7	50.9	271.9	15.8
American Home	—	—	—	—	—	—	—	2,376.3	—	—	4,175.1	—	20.9	1,152.0	1.8
Amoco	1,564.0	1,509.0	2,072.0	563.0	438.0	8.0	8.0	11,324.0	5.0	18.3	23,706.0	6.7	42.0	2,491.0	1.7
Anheuser-Busch	319.3	287.1	666.1	379.0	232.8[2]	9.0	8.5[2]	2,015.8	18.8	33.0	5,833.8	11.4	36.6	1,005.1	3.5
Archer Daniels	80.7[1]	68.9[1]	99.9[1]	31.0[1]	19.0[2]	8.0[1]	8.0[2]	2,075.9	1.5	4.8	3,315.4	3.0	6.0	240.6	2.4
Ashland Oil	369.9	365.4	709.8	344.4	283.4	8.0	9.7	971.0	35.5	73.1	3,804.7	18.7	−16.9	381.8	−4.6
AT&T Technologies	16,269.0	17,756.0	26,643.0	8,887.0	7,735.0	7.8	6.7	13,550.0	65.6	196.6	38,883.0	68.5	−258.0	2,489.0	−11.6
Atlantic Richfield	1,424.0	1,357.0	2,054.0	697.0	546.0[2]	9.5	8.5[2]	5,130.0	13.6	40.0	21,604.0	9.5	9.0	1,494.0	0.6
Baxter Travenol	208.0	185.0	178.0	−7.0	6.0	9.5	9.5	2,490.0	−0.3	7.1	7,068.0	2.5	26.0	483.0	5.1
Bethlehem Steel	3,603.6	3,490.9	2,279.6	−1,211.3	−1,032.9[2]	9.0	8.0[2]	624.0	−194.1	365.3	4,660.9	48.9	192.2	−56.3	M
Boeing	3,233.0	2,949.0	4,658.0	1,709.0	1,424.0	8.5	8.5	4,826.0	35.4	96.5	11,068.0	42.1	215.0	630.0	25.4
Boise Cascade	544.9	532.5	655.1	122.5	150.7	8.5	8.5	1,470.6	8.3	44.5	3,533.6	18.5	−3.3	280.6	−1.2
Borden	389.9	363.8	409.3	45.5	72.4[2]	10.5	7.8/11.1[2]	1,438.3	3.2	28.5	3,582.2	11.4	−4.5	445.7	−1.0
Bristol-Myers	427.8	378.2	659.6	281.4	196.1[2]	12.0	9.8[2]	2,829.4	9.9	23.3	4,183.0	15.8	−15.9	312.9	−5.4
Campbell Soup	431.4	415.7	510.5	94.8	76.1[2]	9.0	9.0[2]	1,538.9	6.2	33.2	2,762.8	18.5	10.4	415.8	2.4
Caterpillar	2,648.0	2,533.0	3,392.0	859.0	831.0	8.5	9/10.7	3,149.0	27.3	107.7	6,288.0	53.9	51.0	249.0	17.0
Champion Int'l	863.2	822.7	879.8	57.1	103.6[2]	9.5	9.3[2]	2,592.4	2.2	33.9	6,025.7	14.6	20.6	437.9	4.5
Chevron	2,820.0	2,713.0	3,615.0	902.0	918.0[2]	8.0	8.0[1]	15,493.0	5.8	23.3	34,583.0	10.5	−6.0	2,684.0	−0.2
Chrysler	4,843.5	4,047.7	3,235.3	−812.4	−600.0	10.0	10.0	5,344.8	−15.2	60.5	14,463.2	22.4	236.3	1,794.0	11.6
Coastal	297.8	250.1	552.3	302.2	151.2[2]	11.0	9.0[1]	658.1	45.9	83.9	7,777.3	7.1	−3.6	612.6	−0.6
Coca-Cola	292.8[1]	267.5[1]	398.9[1]	131.4	114.4	8.0	9.0	3,514.9	3.7	11.3	8,373.4	4.8	31.0	1,325.0	2.3
Colgate-Palmolive	531.3[1]	504.4[1]	761.4[1]	257.0[1]	197.2[2]	8.7[1]	8.8[2]	894.5	28.7	85.1	2,845.9	26.8	12.2	332.3	3.5
Con Agra	80.4[1]	65.3[1]	114.1[1]	48.8[1]	29.4[2]	8.0[1]	8.0[2]	510.5	9.6	22.4	1,819.7	6.3	12.0	220.2	5.2
CPC Int'l	551.3	515.4	456.8	−58.6	−7.8	10.5	8.0	956.1	−6.1	47.8	3,650.6	12.5	34.1	349.6	8.9
Digital Equipment	265.2	223.3	667.7	444.4	303.2	6.0	6.0	5,727.8	7.8	11.7	7,173.3	9.3	111.8	828.7	11.9
Dow Chemical	1,765.0	1,635.0	1,934.0	299.0	208.0	8.0	8.0	5,168.0	5.8	37.4	12,242.0	15.8	156.0	1,285.0	10.8
Du Pont	6,717.0	6,605.0	11,402.0	4,797.0	4,236.0	9/11.0	9.4	13,137.0	36.5	86.8	26,733.0	42.7	−121.0	3,188.0	−3.9
Eastman Kodak	3,032.0	2,986.0	4,775.0	1,789.0	1,220.0	9.0	9.0	6,388.0	19.1	74.7	12,902.0	37.0	96.0	724.0	11.7
Eaton	855.4	772.5	1,032.7	260.2	271.0	10.0	8.0	1,244.9	21.8	83.0	3,025.0	34.1	18.9	234.7	7.5
Emerson Electric	310.3[1]	259.6[1]	437.6[1]	178.0[1]	187.3[2]	8.4[1]	9.2[2]	2,374.0	7.9	18.4	3,769.0	11.6	28.9	756.9	3.7
Exxon	6,330.0	5,971.0	9,087.0	3,116.0	3,886.0	4/12.0	10.0	32,012.0	9.7	28.4	69,484.0	13.1	239.0	7,851.0	3.0
Ford Motor	11,680.0	9,800.0	12,500.0	2,700.0	1,440.0	8.0	8.2	14,859.5	18.2	84.1	37,933.0	33.0	711.4	4,056.5	14.9
General Dynamics	2,246.3	2,087.0	2,844.0	757.0	738.3[2]	8.0	8.0	1,264.4	59.9	224.9	4,552.5	62.5	36.0	229.0	13.6
General Electric	12,258.0	11,958.0	13,311.0	1,353.0	5,963.0	6.5	7.0	15,109.0	9.0	88.1	34,591.0	38.5	143.0	3,061.0	4.5
General Mills	398.0[1]	358.0[1]	510.0[1]	152.0[1]	112.0[2]	4/8.7[1]	4/9.7[2]	682.5	22.3	74.7	2,086.2	24.4	32.4	331.9	8.9
General Motors	31,561.9	27,587.5	33,495.9	5,908.4	2,117.7	8.5	10.9	29,274.0	20.2	114.4	72,593.0	46.1	821.0	1,430.9	36.5
Georgia-Pacific	347.0	316.0	501.0	185.0	169.0	7.5	7.5	2,437.2	7.6	20.6	5,114.0	9.8	22.0	590.0	3.6
Goodyear Tire	1,113.6	996.5	1,656.5	660.0	327.9	9.0	8.0	3,002.6	22.0	55.2	8,609.5	19.2	15.1	507.9	2.9
Grace (W.R.)	386.2	365.5	766.0	400.5	271.9	7.3	7.1	1,300.9	30.8	58.9	4,097.2	18.7	2.1	187.1	1.1
Hanson Industries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Heinz (H.J.)	221.4[1]	183.0[1]	293.8[1]	110.8[1]	66.3[2]	9.0[1]	9.0[2]	1,356.5	8.2	21.7	2,837.4	10.4	23.5	551.1	4.1
Hewlett-Packard	725.0[1]	554.0[1]	896.0[1]	342.0[1]	304.0[2]	9.0[1]	8.0[2]	4,374.0	7.8	20.5	6,287.0	14.3	56.0	780.0	6.7
Honeywell	1,402.0	1,228.6	1,857.6	629.0	359.0	8.5/14.5	8.5/14.5	2,221.2	28.3	83.6	5,139.0	36.1	73.8	91.4	44.7
IC Industries	412.9	390.9	534.1	143.2	12.4[2]	9.0	9.0[2]	1,528.4	9.4	34.9	4,712.9	11.3	15.4	505.8	3.0
IBM	12,821.0	11,936.0	24,165.0	12,229.0	7,778.0	5/11.0	6/8.0	34,374.0	35.6	70.3	57,814.0	41.8	585.0	7,859.0	6.9

Definitions

Total pension liabilities:
The actuarial present value of benefits promised to all past and present employees based on service already performed.

Vested benefits:
The present value of all benefits accrued by employees who have worked long enough with the company to have a legal right to the benefits.

Fund assets:
The market value of the assets that have been set aside to fund pension benefit payments.

Vested funding status:
Fund assets minus vested benefits. Overfunded plans have a positive status; plans with an unfunded vested liability have a negative status.

Assumed rate of return:
The weighted average interest rate the company's actuary uses in deriving the present value of total pension benefits.

Net worth:
The amount of equity available for stockholders as shown on the company's balance sheet.

Adjusted operating income:
Operating income plus pension expense.

statements: 1986 (See related story— page 2)

Company	Total pension liabilities $ mil.	Vested benefits $ mil.	Fund assets $ mil.	Vested funding status $ mil. 1986	Vested funding status $ mil. 1985	Assumed rate of return (%) 1986	Assumed rate of return (%) 1985	Net worth $ mil.	1986 vested funding status as percentage of net worth	Pension assets as percentage of net worth	Corporate assets $ mil.	Pension assets as percentage of corporate assets	Pension expense $ mil.	Operating income $ mil.	Pension expense as percentage of adjusted operating income
Int'l Paper	1,108.0	1,069.0	1,530.0	461.0	332.0	8.5	8.5	3,664.0	12.6	41.8	7,848.0	19.5	−38.0	353.5	9.7
ITT	1,937.0	1,746.0	1,869.0	123.0	285.8[2]	9.8	9.0[2]	6,525.5	1.9	28.6	12,920.4	14.5	85.9	282.3	23.3
Johnson & Johnson	518.0	483.2	903.7	420.5	412.2	8.5	8/8.5	2,824.2	14.9	32.0	5,876.7	15.4	44.2	840.0	5.0
Kimberly-Clark	583.7	562.9	697.7	134.8	141.5	9.0	10.0	1,919.9	7.0	36.3	3,676.0	19.0	24.2	484.9	4.8
Kraft	827.5	797.7	1,320.1	522.4	345.2	9.0	8.0	1,798.0	29.1	73.4	4,749.3	27.8	−21.7	716.9	−3.1
Litton Industries	612.0	593.0	NA	NA	19.0	7.0	7.0	1,011.7	0	0	4,569.3	0	33.6	251.0	11.8
Lockheed	3,084.0	2,958.0	4,526.0	1,568.0	1,221.0	8.5	7.9	1,866.0	84.0	242.6	5,943.0	76.2	−40.0	763.0	−5.5
LTV	541.9[1]	485.6[1]	773.8[1]	288.2	238.4	10.0	10.0	−2,468.7	−11.7	−31.3	5,498.7	14.1	137.9	147.0	48.4
Martin Marietta	1,207.8	1,088.7	1,568.9	480.2	418.0	4/7.5	4/9.3	843.4	56.9	186.0	2,470.7	63.5	69.5	293.7	19.1
McDonnell Douglas	2,452.1[1]	2,135.5[1]	3,949.6[1]	1,814.1[1]	1,209.3[2]	8.0[1]	8.0[2]	2,844.8	63.8	138.8	7,910.7	49.9	165.2	392.9	29.6
Merck	627.3	591.5	991.7	400.2	357.0	9.0	9.0	2,569.1	15.6	38.6	5,105.2	19.4	18.7	1,041.2	1.8
3M	1,224.0	923.0	1,996.0	1,073.0	620.0	8.5	8.5	4,463.0	24.0	44.7	7,348.0	27.2	8.0	1,410.0	0.6
Mobil	2,231.0	2,009.0	2,869.0	860.0	1,165.0	9.5	9.0	15,239.0	5.6	18.8	39,412.0	7.3	22.0	−802.0	M
Monsanto	2,311.0	2,124.0	3,014.0	890.0	678.0	8.2/9.0	8.5	3,781.0	23.5	79.7	8,269	36.4	33.0	477.0	6.5
Motorola	208.0	176.0	411.0	235.0	166.0	8.0	8.0	2,754.0	8.5	14.9	4,682	8.8	−2.0	351.0	−0.6
NCR	1,047.8	953.8	1,616.7	662.9	531.7	8.1	8.3	2,396.3	27.7	67.5	4,014.9	40.3	47.3	597.7	7.3
North American Philips	511.0	455.2	895.7	440.5	315.0	10.2	9.0	1,096.2	40.2	81.7	2,885.8	31.0	−9.5	146.6	−6.9
Northrop	941.8[1]	789.9[1]	1,667.3[1]	877.4[1]	485.5[2]	7.5[1]	6.0[2]	898.7	97.6	185.5	2,698.8	61.8	124.5	70.8	63.7
Occidental Petroleum	126.1	122.2	140.0	17.8	17.8[2]	9.3	7.6[2]	3,969.3	0.4	3.5	17,466.8	0.8	4.0	863.3	0.5
PPG Industries	818.2	760.6	1,012.8	252.2	135.6	9.5	9.0	1,997.8	12.6	50.7	4,641.4	21.8	−4.3	767.6	−0.6
PepsiCo	418.9[1]	327.8[1]	573.9[1]	246.1[1]	246.1[2]	7.0[1]	7.0[2]	2,059.1	12.0	27.9	8,028.6	7.1	35.0	713.0	4.7
Pfizer	522.2	487.8	715.2	227.4	130.3	8.0	7.5	3,415.2	6.7	20.9	5,163.7	13.9	6.8	959.7	0.7
Philip Morris	1,852.0	1,758.0	2,917.0	1,159.0	793.0	9.0	9.0	5,655.0	20.5	51.6	17,642.0	16.5	7.0	3,624.0	0.2
Phillips Petroleum	48.0	47.0	158.0	111.0	766.0	9.3	9.3	1,710.0	6.5	9.2	12,399.0	1.3	−24.0	1,313.0	−1.9
Pillsbury	223.4	202.2	389.6	187.4	134.7	9.0	9/15.3	1,314.2	14.3	29.6	3,658.8	10.6	−6.2	474.4	−1.3
Procter & Gamble(A)	—	—	—	—	—	—	—	5,704.0	—	—	13,055.0	—	—	1,305.0	—
RJR Nabisco	1,858.0	1,604.0	2,260.0	656.0	525.0[2]	9.0	8.5[2]	5,312.0	12.3	42.5	17,019.0	13.3	71.0	2,478.0	2.8
Ralston Purina	351.9	341.4	541.4	200.0	229.5	8.0	8.0	998.9	20.0	54.2	4,209.9	12.9	44.6	593.5	7.0
Raytheon	1,133.8	1,049.9	1,603.9	554.0	403.9	8.0	7.0	1,954.6	28.3	82.1	3,555.9	45.1	50.9	449.0	10.2
Rockwell Int'l	3,667.0[1]	3,291.0[1]	5,417.0[1]	2,126.0[1]	2,126.0[2]	9.0[1]	8.0[2]	3,148.6	67.5	172.0	7,703.4	70.3	77.1	1,064.6	6.8
Sara Lee	211.2	189.5	309.8	120.3	70.2	8.5	8.5	1,154.7	10.4	26.8	3,503.1	8.8	20.3	411.8	4.7
Shell Oil	2,111.0	1,883.0	2,853.0[1]	970.0	865.0	8.5	8.8	14,129.0	6.9	20.2	26,528.0	10.8	38.0	4,013.0	0.9
Smith-Kline Beckman	314.5[1]	288.0[1]	583.0[1]	296.0[1]	213.8[2]	8.5[1]	8.5[2]	1,296.0	22.8	45.0	4,222.0	13.8	15.4	764.2	2.0
Standard Oil	1,005.0	927.0	1,113.0	186.0	262.0	9.0	10.0	7,020.0	2.6	15.9	15,955.0	7.0	11.0	2,874.0	0.4
Sun	1,447.1	1,325.0	1,610.0	285.0	203.0	8.0	9.5	5,254.8	5.4	30.6	11,684.0	13.8	3.0	756.0	0.4
Tenneco	1,169.0	1,052.0	2,019.0	967.0	308.0[2]	7.6	7.6[2]	4,412.0	21.9	45.8	18,021.0	11.2	−27.0	1,023.0	−2.7
Texaco	986.0	857.0	1,365.0	508.0	507.0[2]	9.0	9.0[2]	13,739.0	3.7	9.9	34,940.0	3.9	79.0	2,777.0	2.8
Texas Instruments	261.9	216.5	778.8	562.3	257.9[2]	9.0	6.0[2]	1,427.1	39.4	54.6	3,336.7	23.3	9.7	101.9	8.7
Textron	1,132.8[1]	1,047.7[1]	1,347.9[1]	300.2[1]	300.2[2]	8.2[1]	8.2[2]	1,811.6	16.6	74.4	5,557.1	24.3	41.0	401.2	9.3
Time	152.0	135.0	231.0	96.0	55.3[2]	10.0	10.0[2]	1,302.0	4.3	17.7	4,230.0	5.5	14.0	308.0	4.3
TRW	1,250.4	1,167.6	1,745.7	578.1	680.2	10.0	8.5/10.0	1,173.9	57.9	148.7	3,909.3	44.7	62.1	405.1	13.3
USX	8,273.0	7,956.0	8,893.0	937.0	2,209.0	9.0	9.0	4,734.0	19.8	187.9	21,823.0	40.8	−194.0	−1,494.0	M
Union Carbide	1,377.0	1,326.0	1,721.0	395.0	445.0	10.0	9.3	1,005.0	39.3	171.2	7,571.0	22.7	19.0	659.0	2.8
Unisys	2,156.8	2,012.8	3,055.3	1,042.5	214.7	9.3	9.3	3,828.3	27.2	79.8	9,408.8	32.5	22.1	−15.8	M
United Technologies	3,709.6	3,524.2	5,117.2	1,593.0	1,213.1[2]	10.0	8.3[2]	3,801.4	41.9	134.6	11,091.8	46.1	50.4	365.4	12.1
Unocal	552.0	480.0	860.0	380.0	398.0	7.5	7.0	1,681.0	22.6	51.2	10,133.0	8.5	−68.0	529.0	−14.8
Westinghouse	3,735.2	3,400.5	3,802.5	402.0	395.3	8.3/12.3	8.3/12.3	3,009.6	13.4	126.3	8,481.8	44.9	113.0	870.8	11.5
Weyerhaeuser	486.1[1]	473.8[1]	684.0[1]	210.2[1]	117.9[2]	10.5[1]	10.5[2]	2,903.5	7.2	23.6	6,557.6	10.4	16.4	399.8	3.9
Whirlpool	455.7	407.5	663.8	256.3	118.1	7.5	7.5	1,349.8	19.0	49.2	2,202.3	30.1	6.6	295.4	2.2
Xerox	1,996.0	1,991.0	1,972.0	−19.0	56.0	9.5	8.5	4,687.0	−0.4	42.1	10,608.0	18.6	130.0	521.0	20.0

Operating income:
Income derived from actual operations of the company.

Pension expense:
The amount charged against income to fund benefit payments in a given year.

Corporate assets:
The value of all corporate assets, as shown on the balance sheet.

Vested funding status as a percentage of net worth:
A comparison of the vested funding status, either positive or negative, to a company's net worth.

Notes:
A - Procter & Gamble has a profit-sharing plan and no defined benefit plan.
M - Pension statistics as percentages of either a negative net income or negative operating profit are meaningless.
[1] - January 1, 1986
[2] - January 1, 1985
Source: Wright Investors' Service, Bridgeport, Conn.

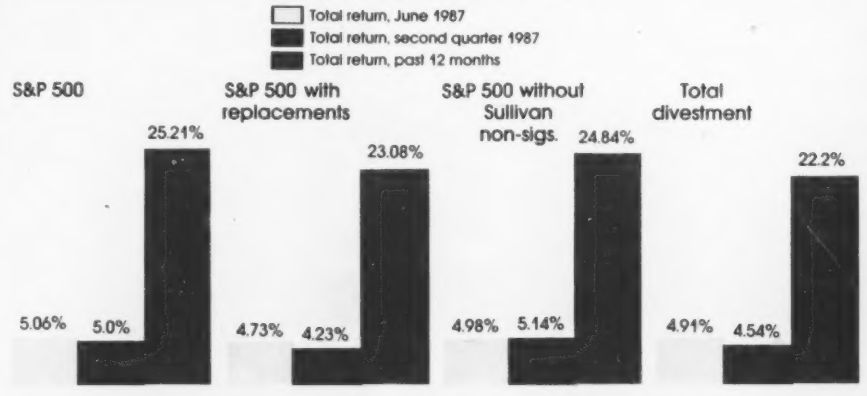
Statistically speaking

The Statistically Speaking page offers an at-a-glance look at statistics for the latest quarter.

The Wilshire South Africa Free Index, Mercer-Meidinger bullet GIC data, First Chicago's MMI and the Russell 3000 returns will appear regularly.

Other data will be used as time and space allow.

South Africa Free Index



Source: Wilshire Associates, Santa Monica, Calif.

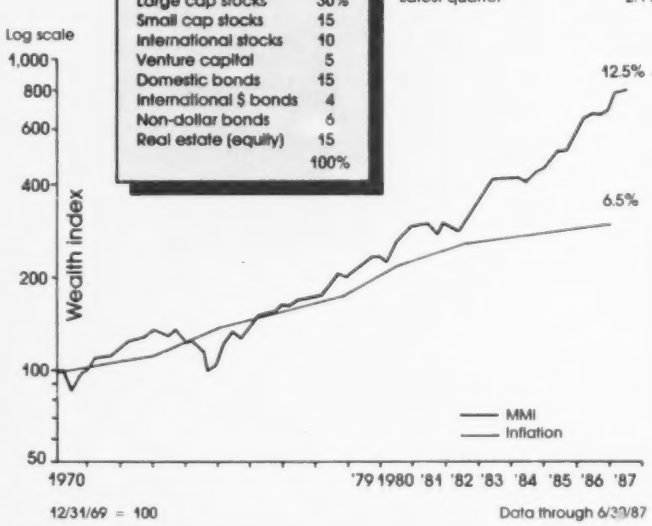
S&P 500 with replacements: replaces a South Africa-related company with next largest company in the industry. **S&P 500 without Sullivan non-signatories:** excludes 20 companies, no replacements. **Total divestment:** eliminates all companies with South Africa involvement, no replacements.

Multiple Markets Index

The Multiple Markets Index is a benchmark for total portfolio returns. It is composed of eight asset classes used by retirement plan executives; it is calibrated to reflect the same degree of risk of the typical pension portfolio; it uses passive fixed policy weights; and it represents the individual asset classes by the broadest and most complete market return data available.

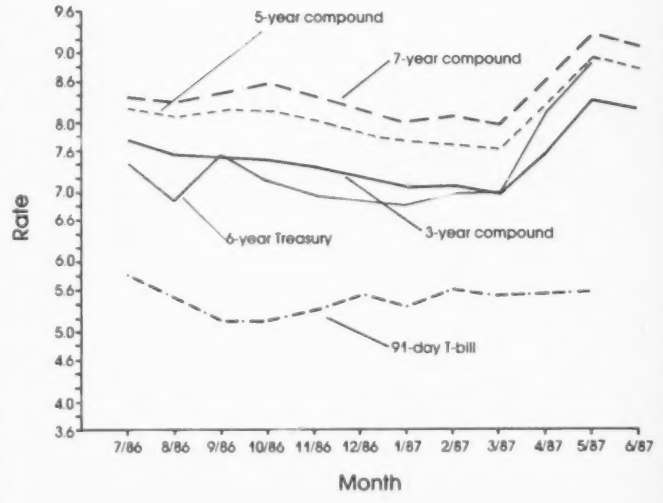
	Weights
Large cap stocks	30%
Small cap stocks	15
International stocks	10
Venture capital	5
Domestic bonds	15
International $ bonds	4
Non-dollar bonds	6
Real estate (equity)	15
	100%

Five-year annualized return	22.7%
One-year return	18.4%
Latest quarter	2.1%



Source: First Chicago Investment Advisors, Chicago

William M. Mercer-Meidinger-Hansen Inc. summary of average bullet GIC data vs. market yields ($ millions)



Source: William M. Mercer-Meidinger-Hansen Inc., Louisville, Ky.

Second quarter 1987 returns

	Russell 3000®	Russell 1000®	Russell 1000® by market capitalization				Russell 2000®
			Large	Medium/large	Medium	Medium/small	
Technology	4.9%	5.8%	6.8%	8.4%	−0.5%	5.6	−1.2%
Health care	2.8	3.5	4.2	4.4	2	−5.1	−2.6
Consumer discretionary	5.5	6.3	4.9	7	9.3	2.6	0.1
Consumer staples	4	4.2	4.1	5.2	1.8	2.6	−1.5
Integrated oils	9.8	9.8	10.7	2.2	9.9	2.7	−1.2
Other energy	7.8	7.2	—	8.2	5.5	8.6	11.5
Materials and processing	1.8	2	8.9	0.1	−1.2	4.9	0.7
Producer durables	1.2	1.5	−9.1	1.7	4	2.9	−0.8
Auto and transportation	8.7	9.4	12.6	12.2	3.3	5.4	−1.3
Financial services	−2	−1.6	−1.4	−1.3	−1	−3.2	−6.7
Utilities	−0.4	−0.4	2.9	−3.5	−1.8	−4.6	0.7
Total	3.4	3.8	6.1	3.6	2.1	0.9	−0.7

Source: Frank Russell Co., Tacoma, Wash.

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Photos by John Kennard

Robert Steves, assistant deputy comptroller for real estate investments, wants the New York State Common Retirement Fund to be a leader in equity real estate investment.

N.Y. fund . . .

Continued from page 1

to be invested in commingled funds.

All of the fund's current equity real estate allocation is in commingled funds.

Mr. Steves said there are no immediate plans to alter the fund's 8.6% allocation to mortgages and its 8.6% allocation to mortgage-backed securities.

He said the new targets follow a recently completed investment policy review by the fund's staff. Fund officials said the money for the increased real estate allocation initially will come from cash flow, but, eventually, the higher real estate allocation likely will lead to changes in the allocation to other asset classes.

The board of trustees is expected to approve the revised policy in September, he added. The manager screening process is scheduled to begin in August, and manager changes might come as early as October, he said.

State Comptroller Edward V. Regan "said to me the other day, 'The reason you're here is because real estate needs to be focused on more as a separate asset class.' (The increased allocation) represents his commitment to real estate investing," said Mr. Steves. Mr. Regan is sole trustee for the Common Retirement Fund.

Fund officials haven't decided on any other specific equity investments, but Mr. Steves said he wants to invest in what "other major funds" do, such as direct ownership of malls, office buildings and industrial properties.

He said officials are interested in specialized commingled funds, citing the TCW land fund and one invested only in rental housing.

Expense cut . . .

Continued from page 2

crease to "changes made in the basic plan." He didn't elaborate.

Other corporations reporting an increase in pension expense are:

- Chrysler Corp., Detroit, Mich. — up 7.5% to $236.3 million from $219.8 million;
- ConAgra Inc., Omaha, Neb. — up 25% to $12 million from $9.6 million;
- CPC International Inc., Englewood Cliffs, N.J. — 10.7% to $34.1 million from $30.8 million;
- Dow Chemical Co., Midland, Mich. — 4% to $156 million from $150 million; and
- Ford Motor Co., Dearborn, Mich., 32.1% to $711.4 million from $538.6 million.

Although in many cases pension expense is plummeting, the trend likely will be slowed, if not counteracted by another change likely to take place — a decline in the discount rate, the assumed rate of return achieved by discounting present liabilities to future values.

"It will be interesting to see what will happen with the discount rate — it should be lowered (by many companies). This will increase their liabilities," said Mr. Veith.

"This goes against increasing the income. You're going to have a larger liability. "It may tend to undo some of the good results" of 1986.

While the pension expense reported by the 100 companies generally dropped, both pension assets and liabilities rose from 1985. The aggregate asset total in 1986 was $273.25 billion, up 17% from 1985's $233.5 billion; aggregate vested liabilities rose 13.2% to $195.22 billion from $172.5 billion.

Three corporations moved to underfunded from overfunded status, and five jumped to the overfunded category from underfunded.

The aggregate surplus for overfunded plans rose almost 22% to $78 billion from $64 billion in 1985.

Within the overfunded plans, 66 increased their assets and only 19 decreased, while still remaining overfunded. The biggest increases were reported by: American Brands Inc., New York, where surplus assets skyrocketed 19,618.8%, to $315.5 million from $1.6 million in 1985, and American Cyanamid Co., Wayne, N.J., where surplus assets leaped 706.4% to $88.7 million from $11 million.

Companies whose surplus assets declined significantly, even though their plans still are overfunded, include:

- Phillips Petroleum Co., Bartlesville, Okla., whose surplus decreased 85.5%. In 1986, the plan reported surplus assets of $111 million, compared with 1985's $766 million.
- General Electric Corp., Stamford, Conn., whose surplus dropped to $1.35 billion from $5.96 billion, a 77% decline.

Funding surpluses for 1986 ranged from $12.23 billion for IBM Corp. to $17.8 million for Occidental Petroleum Co. Deficits varied from Bethlehem Steel Corp.'s $1.21 billion to Baxter Travenol Laboratories Inc.'s $7 million. ■

Minnick to leave SEI post

WAYNE, Pa. — James E. Minnick will leave SEI Funds Evaluation Services, and William R. Bullion will relinquish his marketing duties to concentrate on evaluation services.

Mr. Minnick, executive vice president of SEI Corp., will join Morgan Grenfell Capital Management Inc., New York, as an executive vice president.

He will head marketing efforts for Morgan Grenfell Capital Management, which manages $160 million in U.S. equity investments, and Morgan Grenfell Investment Services, which manages $4 billion in equity and fixed-income investments globally for North American clients.

Starting Jan. 1, he will begin marketing two new domestic products for Morgan Grenfell, in which the firm's international and domestic research are applied to domestic stock picking, said J. Richard Walton, president of Morgan Grenfell Capital Management.

Mr. Bullion, SEI's executive vice president and general manager of the consultant's evaluation services division in Wayne, is turning over his responsibility for marketing and consulting nationwide to Ed Loughlin, former senior vice president and Eastern region manager, who is being named senior vice president of account management.

Mr. Bullion's title will not change.

"I thought I was Superman for a year," said Mr. Bullion.

"Now I find it's normal to handle one job at a time."

Gilbert L. Beebower, formerly senior vice president, has been promoted to executive vice president in charge of a newly structured research division consisting of the advanced product concepts and investment policy planning groups.

Mr. Beebower will assume Mr. Bullion's research responsibilities.

In other SEI promotions, William B. Madden, formerly vice president, has been named a senior vice president and will continue to manage the investment policy planning group.

Keith McDowell, formerly vice president, has been promoted to senior vice president. Mr. McDowell still will be responsible for all professional development, such as training new and current employees.

Taking over for Mr. Loughlin, Robert Hudon, former vice president and Chicago-based branch manager-central regions, has been named a senior vice president and Eastern region manager.

He will be based in Wayne.

Replacing Mr. Hudon is John Angley, formerly an account executive in charge of institutional funds evaluation.

His previous duties will be reassigned among existing employees. ■

100 largest investment institutions ($ mils.)

For story on Top 100 institutions, see page 12.

1. Prudential Insurance	**177,466**
Prudential Asset Mgmt.	54,106
Prudential-Bache	24,623
Jennison Associates	20,300
General Investment Mgmt.	4,000
PCM Int'l	2,588
Matrix Capital Mgmt.	570
Mercator	350
2. American Express	**140,021**
Shearson Lehman Brothers	96,056
Boston Co.	16,609
Lehman Mgmt.	12,375
Shearson Asset Mgmt.	6,737
Balcor	5,844
American Express Asset Mgmt.	1,597
Shearson Equity Mgmt.	800
Shearson Mgmt.	244
Convertible Securities Mgmt.	170
IDS Financial Services	29,380
IDS Mutual Fund Group	15,589
IDS Equity/Fixed Income	3,210
IDS Int'l	871
IDS Trust	674
IDS Growth Spectrum	182
IDS Equity Mgmt. Services	31
American Express Bank	8,445
Travel-Related Services	6,126
Other subsidiaries	14
3. Aetna Life & Casualty	**104,556**
Federated Investors	44,356
4. Metropolitan Life	**103,500**
Metropolitan Life	81,581
State Street Research	12,991
Other subsidiaries	8,928
5. Equitable Life Assurance	**102,760**
Alliance Capital Mgmt.	31,140
Equitable Capital Mgmt.	29,201
Equitable Real Estate Investment Mgmt.	24,634
Equitable Mortgage Resources	2,846
Equitable Agri-Business	2,015
Wood, Struthers & Winthrop	1,209
Sprout Group	227
6. Merrill Lynch	**93,000**
Merrill Lynch Asset Mgmt.	93,000
7. FMR Corp.	**65,120**
Fidelity Mgmt. & Research	59,610
Fidelity Mgmt.	5,510
8. Wells Fargo	**63,783**
Wells Fargo Investment Advisors	52,166
Wells Fargo Realty Advisors	720
9. J.P. Morgan	**61,710**
J.P. Morgan Investment Mgmt.	49,703
Morgan Guaranty Trust	12,007
10. Bankers Trust	**56,420**
11. First RepublicBank Trust	**55,000**
12. TIAA-CREF	**54,300**
TIAA	27,900
CREF	26,400
13. John Hancock Financial	**54,051**
John Hancock Freedom Securities	5,200
John Hancock Advisors	2,900
Independence Investment	2,500
John Hancock Properties	665
John Hancock Venture Capital	400
John Hancock Capital Growth	116
John Hancock Realty Services	70
14. The Travelers	**51,900**
Travelers Insurance	36,800
Keystone Mutual Fund	9,700
Travelers Investment Mgmt.	2,200
Other subsidiaries	3,200
15. Citicorp	**51,659**
Citicorp Investment Mgmt.	19,953
16. Mellon Bank	**50,500**
Mellon Capital Mgmt.	15,000
Mellon Bond Associates	14,850
Mellon Equity Associates	2,377
Franklin Portfolio Associates	2,173
Mellon Real Estate	1,100
Mellon-Pictet Int'l	1,043
Other subsidiaries	13,957
17. CIGNA	**45,500**
CIGNA Investment	42,400
CIGNA Int'l Advisors	3,100
18. Kemper	**44,000**
Kemper Financial Services	44,000
19. PNC Financial	**41,100**
Provident Group	30,900
Pittsburgh Nat'l	5,700
Citizens Fidelity	2,300
Northeastern Bank	1,500
Marine Bank	700
20. California Public Employees	**40,720**
21. Dreyfus	**40,000**
Dreyfus Mgmt.	1,823
22. State Farm Group	**38,100**
State Farm Mutual Automobile	23,600
State Farm Life	7,700
State Farm Fire & Casualty	6,800
23. The New England	**37,593**
Loomis, Sayles	20,168
Copley Real Estate Advisors	6,805
Back Bay Advisors	3,721
24. Scudder, Stevens & Clark	**36,079**
25. Primerica	**35,735**
American Capital Mgmt.	17,230
RCM Capital Mgmt.	11,000
Smith Barney	7,500
26. Sears, Roebuck & Co.	**34,975**
Allstate Insurance	17,100
Allstate Property & Casualty	12,930
Allstate Life	4,170
Coldwell Banker	775
27. Chase Manhattan	**33,500**
Chase Investment	19,300
Chase Manhattan Bank	10,100
Chase Lincoln	4,100
28. New York Life	**33,344**
MacKay-Shields Financial	4,300
29. Capital Group	**33,239**
Capital Research & Mgmt.	15,800
Capital Guardian & Trust	14,900
Capital Int'l S.A.	1,700
Capital Int'l Ltd.	646
Capital Guardian Trust/Nevada	193
30. Marsh & McLennan	**32,451**
Putnam Cos.	32,451
31. Franklin Funds	**32,240**
Franklin Advisors	32,000
Property Resources	75
Franklin Asset System	70
Burr Wilson	58
Franklin Mgmt.	19
Pacific Union Bank	18
32. N.Y.C. Retirement Systems	**32,000**
33. N.Y. State Common Fund	**31,533**
34. Vanguard Group	**30,000**
35. Wellington, Thorndike Doran, Paine & Lewis	**29,590**
Wellington Mgmt.	817
36. General Electric	**28,000**
37. Northern Trust	**27,023**
Northern Trust Corporate Group	12,942
Northern Trust of Florida:	
Miami	1,827
Sarasota	955
Naples	503
Palm Beach	279
Northern Trust/Arizona	812
Other subsidiaries	9,705
38. Manufacturers Hanover Trust	**26,200**
MH Investment Corp.	18,600
MH Investment Counsel	2,100
39. State Street Bank of Boston	**26,100**
40. E.F. Hutton	**26,000**
Hutton Capital Mgmt.	1,550
Hutton Direction	1,200
Hutton Investment Mgmt.	830
Hutton Government Securities	370
41. IBM	**25,865**
42. Lomas & Nettleton Financial	**24,000**
43. Irving Trust	**22,000**
44. MCorp	**21,900**
45. T. Rowe Price	**21,600**
46. Citizens & Southern	**21,207**
C&S Georgia	10,700
C&S Florida	5,000
C&S South Carolina	3,700
C&S Trust Advisors	5
C&S Investment Advisors	2
47. Mutual of N.Y. (MONY)	**20,817**
North American Mortgage	2,750
Evaluation Associates	1,311
Unified Mgmt.	328
Other subsidiaries	347
48. N.J. Division of Investment	**20,813**
49. Lincoln Nat'l	**20,800**
Lincoln Nat'l Pension	4,600
50. N.Y. State Teachers	**20,555**
51. California State Teachers	**20,296**
52. Pacific Mutual Life	**19,911**
Pacific Investment Mgmt.	13,470
Pacific Mutual Real Estate Advisors	288
Other subsidiaries	273
53. Xerox	**19,900**
Xerox Financial Services	9,300
54. Van Kampen Merritt	**19,430**
55. Morgan Stanley Group	**18,900**
Morgan Stanley Asset Mgmt.	10,000
56. Nationwide Insurance Group	**18,430**
Nationwide Mutual	6,500
Nationwide Life	6,500
Wausau Property & Casualty	2,700
Nationwide Fire	1,100
Wausau Life	600
Other subsidiaries	1,030
57. Massachusetts Mutual Life	**18,000**
58. Sun Life	**18,000**
Mass. Financial Services	15,000
59. Texas Teachers	**18,000**
60. PaineWebber	**17,868**
Mitchell Hutchins Asset Mgmt.	17,868
61. Wilmington Trust	**17,849**
62. First Interstate Bancorp	**17,844**
First Interstate/California	4,186
First Interstate/Denver	3,651
First Interstate/Oregon	2,154
First Interstate/Oklahoma	2,148
First Interstate/Arizona	1,984
First Interstate/Washington	1,750
First Interstate/Nevada	934
First Interstate/Utah	527
First Interstate/Idaho	115
First Interstate/Fort Collins, Colo.	105
First Interstate/Casper, Wyo.	78
First Interstate/Santa Fe, N.M.	41
First Interstate/Leah County, N.M.	33
First Interstate/Calispell, Mont.	26
First Interstate/Roswell, N.M.	13
First Interstate/Englewood, Colo.	11
First Interstate/Great Falls, Mont.	8
First Interstate/Laramie, Wyo.	5
63. United Asset Mgmt.	**17,824**
Cooke & Bieler	2,478
Investment Counselors of Md.	2,001
Northern Capital Mgmt.	1,272
Hagler, Mastrovita & Hewitt	1,433
Hellman, Jordan Mgmt.	1,274
Analytic Investment Mgmt.	1,242
Fiduciary Mgmt. Associates	483
Nelson Benson & Zellmer	401
Chicago Asset Mgmt.	322
64. Smith Breeden Associates	**17,457**
65. American General Insurance	**17,200**
66. Chemical New York	**16,917**
Chemical Bank New York	6,600
Favia, Hill & Associates	5,442
The Portfolio Group	2,193
Investment and Capital Mgmt.	1,389
Van Deventer and Hoch	1,003
Alexander, Scriver and Associates	179
Chemical Trust Co./Florida	111
67. CNA Insurance	**16,642**
Continental Assurance	6,154
68. BankAmerica	**16,400**
69. Security Pacific	**16,193**
Pacific Century Advisors	5,520
Financial Mgmt. Trust Services	5,370
Security Investment Managers	4,828
Munder Capital Mgmt.	423
Atlantic Century Advisors	52
70. Wisconsin Investment Board	**16,181**
71. JMB Realty	**16,000**
JMB Institutional Realty	2,000
72. E.I. du Pont de Nemours	**15,700**
73. Delaware Mgmt.	**15,600**
Delaware Investment Advisors	11,400
Delaware Mutual Funds	4,200
74. Michigan State Employees	**15,300**
75. Integrated Resources	**15,000**
76. Fidelcor	**14,969**
Fidelity Bank	14,200
Merchants	634
Merchants North	135
77. Ohio Public Employees	**14,368**
78. U.S. Trust	**14,309**
U.S. Trust/New York	13,561
U.S. Trust/California	415
U.S. Trust/Florida	333
79. Fiduciary Trust	**14,013**
80. Harris Bancorp	**13,979**
Harris Trust & Savings	13,100
Harris Trust/Arizona	449
Harris Trust/Florida	171
First Nat'l Bank/Barrington, Ill.	145
Harris Bank/Winnetka, Ill.	66

Jonathan Taylor recognizes the appeal of pension assets.

Western firms . . .

Continued from page 3

York-based money manager.

Chase Investors Management Corp., New York, runs Japanese institutional accounts through joint ventures with two Japanese firms. For Daiwa International Capital Management, New York, Chase manages an $80 million small-capitalization U.S. equities fund, while for Yamaichi, Chase runs a $147 million double-hedging bond fund. Chase also directly runs a $40 million separate account for an unnamed Japanese financial institution.

• Insurance companies and independent investment firms also are breaking through the barriers and entering the market. CIGNA's Tokyo subsidiary runs $525 million for three Japanese subsidiaries, while Alliance Capital Management International's Tokyo office manages $232 million in Japanese assets and has just announced an agreement to invest in non-Japanese markets for Mitsui Investment Management Co. clients. In exchange, Alliance will train Mitsui personnel in the management of diversified international portfolios.

• Leland O'Brien Rubinstein Associates Inc. recently licensed its dynamic hedging technology to Nikko, primarily for use in the Japanese market, and is negotiating with other Japanese firms, said Scott Grannis, vice president at the Los Angeles-based money manager. ■

Multiple manager funds

Japanese sponsor	Managers	Assets ($ mils.)
Daiwa	Daiwa Int'l Capital; Dreyfus	93
Daiwa	Baring Int'l Investment; Daiwa Int'l Capital	158
Daiwa	Daiwa Securities; IDS Equity/Fixed-Income	370
Daiwa	Banque Nationale de Paris; Daiwa Investment Trust.; MIM Britannia	433
Nikko	Banque Indosuez; G.T. Capital; Robeco; Scudder, Stevens & Clark	650
Taiyo	Scudder, Stevens & Clark; other	320
Yamaichi	MIM Britannia; Societe General	251
TOTAL		2,275

U.S. mentors . . .

Continued from page 3

investors approach the market, leading the Japanese to explore heavily quantitative techniques.

The Japanese "don't understand how we manage stocks in this country but they do understand a systematic approach," said William Jacques, a partner at Martingale Asset Management, Boston.

Michael Phillips, director of international consulting for Frank Russell Co., Tacoma, Wash., agreed. "The Japanese are more comfortable with mechanistic" approaches than eclectic ones, he said.

For example, observers cite tremendous interest in portfolio protection techniques by Japanese investors, and expected such strategies to grow enormously as the incipient Japanese futures market develops.

"There's definitely a great deal of interest in portfolio insurance-type of strategies" in Japan, said Roger Sayler, managing director at J.P. Morgan Investment Management Inc., New York.

But the Japanese not only want to use foreign investment expertise, they want to learn the business. To achieve this, the Japanese have placed trainees in U.S. counterparts.

"A large amount of training of their people has been a quid pro quo," said Andrew Rudd, president of BARRA, the San Francisco-based consulting firm that established a Tokyo office last year.

Hartford, Conn.-based CIGNA Corp. has trained employees of Sumitomo Fire & Marine Insurance Co. Ltd., Tokyo, a CIGNA client, in various aspects of insurance for the past 25 years. Now, Sumitomo's first investment management trainee just finished a 12-month program at CIGNA Investment Group, studying fixed-income, real estate and equity investments and overall portfolio management.

At Batterymarch, Mr. Williams estimates more than 50 Japanese firms have sent delegations to see the firm's offices in the past few years. They come as part of study groups charged with a broad agenda of learning the U.S. capital markets and business climate, the pension fund industry, computer applications and the latest investment techniques, he said.

The concern of some, of course, is that the Japanese eventually will become as good or better than foreigners at their own game.

While noting Merrill Lynch, Pierce Fenner & Smith Inc. had worked with Nomura Securities Co. Ltd., Tokyo, in the 1960s, only to be surpassed later by the Japanese firm as the world's largest brokerage firm, "the relationship helped both, and that's the way we feel about it," said Gordon L. Bowyer, president and chief investment officer, Credit Suisse Asset Management, New York.

"We're teaching Mitsui (Bank, Tokyo) while we're making small inroads. It's important to be there. If we're not, somebody else will be," he said.

"We don't feel it's arming the competition, we feel it's building the relationship," said David Cripps, vice president and general manager-international investment department, Manufacturers Hanover Investment Corp., New York.

While MHIC has trained Japanese managers in the past, it has no formal arrangement to do so with any one organization.

But the Japanese still have a long way to go, some observers believe. While they may be picking up ultramodern computer-driven investment techniques, the conservatively oriented Japanese still are a long way from understanding contemporary notions of risk.

"Three or four years ago, you couldn't get an insurer to understand what a time-weighted return was," said George Curuby of Curuby & Co., a Tokyo-based consultant to U.S. firms establishing Japanese offices.

In the past, Japanese firms typically asked their money managers to meet an absolute rate of return while providing no reward if the managers beat the target — while facing potential loss of the account if they took on additional risk.

While the Japanese are expanding their foreign investments, they "have yet to understand that diversifying overseas reduces volatility and risk," Mr. Curuby said.

Even though some U.S. money managers concede they eventually may lose their domestically invested Japanese business to local investment managers, they say they will find niches in the international markets in such specialized areas as mortgage-backed securities.

In addition, others believe the heavy reliance on investment technology by the Japanese may be misguided. As Mr. Curuby suggested, the Japanese are "interested in taking the human element out of the investment process."

"They think it's a game of getting the technology together," but fail to see the need for making innovations in the model, said Anne Cabot, manager of marketing for Sanyo Securities Co. Ltd., Tokyo.

"It's going to take the Japanese a long time to beat us at our game," said Scott Grannis, vice president at Leland O'Brien Rubinstein, Los Angeles. ■

— By Joel Chernoff and Marlene Givant

Putnam fund is targeting bonds

BOSTON — The Putnam Management Co. Inc. is introducing a mutual fund consisting mainly of global government bonds.

The fund will strive for high current income by generally investing in bonds of at least three countries. Investments may span Western Europe, the Pacific Basin and North America. A portion of assets might be invested in investment-grade U.S. corporate bonds, foreign bonds rated A or better or stocks, but some 65% will be in high-yield government bonds.

Managers will hedge the portfolio using foreign exchange and futures and options transactions.

Anthony R. Regan, chief of international investments, and Stephen Bartow, senior international portfolio manager, will direct the trust. ■

Tokkin offer tax saving

By Marlene Givant

"Tokkin" funds — the institutional investment vehicle most open to foreign management — appeal to Japanese businesses largely because setting up the corporate liquidity funds, which now hold $93 billion, allows the companies favorable tax treatment and anonymity in their investments.

Japanese companies typically have vast stock holdings at low book values relative to market values; if the companies were to sell the stocks, they would record significant capital gains.

One advantage of setting up a tokkin is to minimize taxable income. Under Japanese law, if a company makes additional purchases of a stock with low book value through a tokkin, taxable gains accrued at the subsequent sale of the stock are less than if the company had purchased the shares directly.

In addition, once a year, when a company closes the books on its tokkin, it may convert into dividends any capital gains achieved by the accounts, thereby recognizing capital gains as income.

Another advantage is that registration of tokkin securities is in the name of the trustee, affording the client anonymity. This is a plus for cultural reasons — a company can sell its stock in a company with which it does business, without insulting the party.

Investments of the tokkin are broadening beyond Japanese government fixed income, enhancing opportunities for non-Japanese managers to sell their equity expertise.

While Japanese government bonds historically have been popular investments for the funds, the portion of tokkin assets invested in stocks reached 33.7% as of March 31, compared with 19.9% as of Dec. 31, 1984, according to Takaaki Yoda, a chief analyst at Daiwa Securities Co. Ltd., Tokyo.

But any gains made by foreign firms may be short-lived.

Less than 5% of tokkin assets are invested abroad and investment advisory companies in general manage less than half of outstanding tokkin assets, Mr. Yoda said. The rest are managed by the investors.

Investment of tokkin funds on an in-house basis has grown as institutional investors gain expertise in equities transactions.

"The direct management of tokkin accounts by institutional investors should increase in the future, as employees who have been sent to investment advisory companies for training gain experience in portfolio management and investment strategies," he added. ■

100 largest investment institutions

(Continued from page 49)

Harris Bank/Naperville, Ill.	33
Harris Bank/Roselle, Ill.	11
Harris Bank/Hinsdale, Ill.	4
81. The Hartford Group	**13,800**
Hartford Property and Casualty	7,600
Hartford Life	4,500
Hartford Investment Advisors	1,700
82. Bank of Boston	**13,702**
First Nat'l Bank of Boston	8,000
Eagle Investment	4,500
Dewey Square Investors	3,500
Rhode Island Hospital Trust	3,200
Bank of Boston/Connecticut	1,400
Casco Northern Bank	477
Other subsidiaries	625
83. First Chicago	**13,600**
First Chicago Investment	9,600
First Nat'l Bank of Chicago	4,000
84. Ohio Teachers	**13,100**
85. Criterion Group'	**12,516**
Criterion Investment Mgmt.	8,700
Criterion Funds	3,800
Criterion Investments	16
86. Bank of New York	**12,287**
Beacon Capital Mgmt.	750
87. Ameritech	**12,072**
88. Bank of New England	**12,040**
Connecticut Bank and Trust	4,000
Constitution Capital Mgmt.	3,300
Bank of New England/Boston	2,900
Bank of New England/West	917
Maine Nat'l	897
Securities Nat'l	33
89. AmeriTrust	**11,848**
AmeriTrust	11,177
First Bank of Elkhart and Union Bank & Trust/Kokomo, Ind.	669
90. Continental Illinois	**11,808**
91. Brown Brothers Harriman	**11,702**
92. Neuberger and Berman	**11,547**
93. Miller, Anderson and Sherrerd	**11,500**
94. American Nat'l Bank	**11,025**
95. Minnesota State Board	**10,800**
96. Valley Nat'l	**10,715**
97. Fayez Sarofim	**10,700**
FS Realty Partners	53
98. Trust Co. of the West	**10,700**
TCW Asset Mgmt.	7,000
99. Pennsylvania School Employees	**10,593**
100. Boatmen's Bankshare	**10,400**
Boatmen's/St. Louis	7,500
Boatmen's First Nat'l Bank/Kansas City	2,600
Boatmen's/Springfield, Mo.	292

' as of March 31, 1987

Foreign registration plan hanging on

By Nicky Robertshaw

WASHINGTON — A proposal to require registration of domestic real estate and business interests held by foreign investors is still alive despite its defeat in the Senate.

Although rejected as an amendment to the Senate trade bill, Senate Commerce Committee Chairman Ernest F. Hollings, D-S.C., pledged his committee would hold hearings promptly if the proposal were introduced as an independent bill.

And despite the defeat of the amendment, sponsored by Sen. Tom Harkin, D-Iowa, registration of foreign investors will still be considered as the bill goes to conference, because a similar measure is alive in the House (*Pensions & Investment Age*, May 18).

Separately, the Senate approved an amendment to the trade bill — known as the Omnibus Trade and Competitiveness Act of 1987 — requiring Senate committees to assess the economic impact of legislative proposals mandating employers to provide employee benefits.

The Senate completed work on the trade bill, but no specific date had been set at press time for conference action.

The House bill provision would require all foreign investors who acquire more than 5% of a privately held U.S. business or a real estate property valued at more than $5 million or companies with annual sales exceeding $10 million to register with the federal government basic information such as their identity and nationality.

Any equity investment in a U.S. company valued at more than $50 million also would have to be reported.

Tougher reporting rules would apply where the foreign interest exceeds 25% of the total ownership of a business with more than $20 million in assets or gross sales exceeding $20 million.

The rules in the defeated Senate amendment were similar. The Senate measure would not have affected securities investments, Treasury bonds, bank deposits and other such investments, but only real estate and business interests, Mr. Harkin said.

For publicly traded companies, the Harkin amendment would have required disclosures to the extent required by the Securities and Exchange Commission, according to an aide to Mr. Harkin. He added the senator has not yet decided whether to introduce a free-standing version of the bill.

In arguing for his amendment on the Senate floor, he pointed out foreign capital investments in the U.S. economy have doubled in the past three years to $1.3 trillion, with about $250 million of it used to purchase interests in U.S. manufacturing firms, farmland and other assets.

The proposal is controversial, because many experts, including former Federal Reserve Chairman Paul Volcker, argue disclosure requirements would discourage foreign investments.

"I am troubled by the prospect that taken together these provisions, if enacted, could have a seriously adverse affect on foreign investments in the United States at a time when our economy remains highly dependent on the inflow of savings from abroad to finance our budget deficit and to sustain the overall rate of investment in the U.S. economy," Mr. Volcker said in an April 21 letter to House Energy and Commerce Committee Chairman John M. Dingell, D-Mich.

While conceding points raised by Mr. Volcker and others, Mr. Harkin said the disclosure required under his proposal is no more stringent than that in other countries where U.S. entities invest their assets. He added "the short-term advantages of foreign investment should not prevent us from considering the potentially long-term effects on our economy and our national security" that might result from lack of information about investors.

Mr. Harkin's amendment was defeated 83 to 11, although an aide said it was because lawmakers didn't want the provision added to the trade bill, not because they were opposed to disclosure.

Sen. John C. Danforth, R-Mo., called the measure "veto-bait" that would endanger the entire trade bill. He pointed to strong opposition by the Reagan administration and the business community.

An amendment to the trade bill that did survive Senate action was a provision sponsored by Sen. Dan Quayle, R-Ind., that would require Senate committees to assess the economic impact of legislative proposals mandating employee benefits.

Under the proposal, any time a bill that would require additional employee benefits is considered in committee, there would have to be an objective analysis of its potential impact on employers, the economy in terms of international competitiveness and employees. ■

Convertible . . .

Continued from page 1

of the conversion ratio to adjustment of the coupon to a "put" on change of control at the redemption price plus accrued interest.

Although the number of problem cases is minimal compared with the number of convertible issues, some investors contend they won't participate without protective clauses.

Others held out in some takeover situations until they got a better deal.

The lobbying campaign for protection began after convertible holders lived through one too many "nightmares of the convertible," said Patricia Peters, vice president, J.P. Morgan Investment Management Inc., New York, which manages about $900 million in convertibles.

"I have mixed feelings. We're not in a risk-free business. But when it happens to me, I don't like it," she said.

Although convertible investors began to get hit in the mid-1970s, the takeover and restructuring frenzy of recent years brought the issue to the forefront. Most of the companies are small to medium-size issuers (*see accompanying chart*).

Investors complain they lose an important component of their investment — the opportunity to take advantage of stock appreciation — without compensation. Convertible investors usually accept lower coupon interest than that offered by straight bonds in exchange for the conversion opportunity.

In addition, those that buy convertible bonds of corporations that restructure and create highly leveraged balance sheets also can end up holding bonds that pay coupon rates below those commensurate with the companies' changed creditworthiness.

"It's a very important issue, and we are pushing for protection selectively. We look closely at the terms and conditions. It's our fiduciary duty. Eventually we expect the language to become boilerplate, like call protection," said a corporate pension executive who oversees convertible investments.

Participants estimate the convertibles market has experienced explosive growth, to $70 billion now from $40 billion in 1985.

Investor interest in convertibles is rising partly because the securities increasingly are seen as a low-risk way to participate in the bull market.

As convertibles have grown in importance, the clout of convertible managers has improved. Most underwriters say they are responding to the concerns of convertible investors, although all parties agree there is still some resistance from issuers.

"We have begun to insist on language. Both investment bankers and companies have become more willing to include the type of language," said Arthur Berry, vice president, Alliance Capital Management Corp., New York, and president of Alliance Convertible Fund. Alliance Capital Management has more than $500 million in convertibles.

Thomas Revy, managing director of Froley, Revy, has asked underwriters to change the terms to the lower of the takeover price or the conversion price. Another option, he said, is to compensate for the loss of equity participation by increasing the coupon to 150% of the original.

Howard Marks, managing director, Trust Co. of the West, has suggested a put on change of control or other significant events, perhaps at the redemption price plus accrued interest.

That provision was included in recent issues by Freuhauf and Burlington, both underwritten by Kidder Peabody & Co., New York.

"Like any other feature, we will have to assess its value relative to its cost to us," Mr. Marks said.

Mike Rodier, assistant portfolio manager of Wellington Management, and Mr. Calamos of Noddings-Calamos don't think bondholders should have to pay to be treated fairly. Mr. Rodier supports strong protection, at least in the critical first few years after a convertible has been issued.

"The only people who have to fear this are people who anticipate this kind of change. I don't expect to pay extra for this," Mr. Rodier said.

"It is merely keeping us whole. Most issuers need the financing. If they are raising the money under false premises, they deserve to pay for it."

W. Gregory Robertson, executive vice president and director of the investment banking division at Thomson McKinnon Securities Inc., New York, said his firm is encouraging issuers to adopt protective clauses. A protective provision was included in the $30 million convertible issue Thomson McKinnon underwrote in December for Jacobson Stores Inc., a Jackson, Mich.-based specialty department store chain. For a period of five years, each bondholder can put his bonds back to the company at the then-current optional redemption price if there is a change of control.

Rick Nelson, vice president and convertible securities analyst at Kidder Peabody, acknowledged many companies are wary of including the protective clauses. For some, the "indigestion pill" characteristics of the provisions make it possible to sell the idea to the issuer, he said. Kidder is adding the protective clauses when issuers and investors ask for it.

"Frankly I'm surprised more clients aren't asking for it," he said. "I don't think it will become standard unless there's more damage suffered in the marketplace. In this bull market, converts are participating and still making an above-average return." ■

Convertible holders hard-hit in takeovers

Issue	Coupon/ maturity	Conversion price	Takeover price/ takeover co./ date	$1,000 bond worth/convertible into % of debentures	Bond price prior to takeover announcement
Knoll Int'l	9.88%* 8/15/2003	$19.20	$12 General Felt Winter 1987	$625	$880
Lieberman Enterprises	7.62 8/15/2005	21	$20.50 Carolco Pictures in negotiations	976.19	NA
Big Three Industries	8.5 4/15/2006	43.50	$29 Air Liquids Fall 1986	666.70	980
Energy Factors	8.25 12/15/2005	24.75	$17.25 Sithe Energies proposal terminated Summer 1987	696.96	870
Miles Laboratories	5.25 4/1/1994	65	$47 Rhinechen Labs Winter 1979	722.86	NA
Dorchester Gas	8.5 12/1/2005	34.48	$22.50 Damson Oil Summer 1984	625.55	720
Healthcare USA	8.25 6/30/2003	19.80	$13.50 Maxicare Fall 1986	681.82	765
Fibreboard	6.75 10/15/1988	18.50	$17 Louisiana Pacific June 1978	918.15	NA
Fibreboard	4.75 10/15/1993	31.25	$17 Louisiana Pacific June 1978	544	NA
Sprague Electric	4.25 10/1/1992	45.50	$27.50 G.F. Technologies Spring 1979	604.40	NA
H.J. Wilson	10.5 5/15/2002	21	$20 Service Merchandise Spring 1985	952.38	950
Van Dusen Air	10.5 8/1/2005	20	$21 APL Limited Partnership Winter 1986	1,050	NA
Fruehauf	8.5 4/15/2011	50	$49.50 Asher Edelman Fall 1986	1,085**	NA
Grunthal Financial	7.5 6/5/2011	10	$9.50 Home Group Summer 1987	950	1,000
Mayflower	7.88 3/15/2006	32.50	$29.25 Laidlaw Transportation Summer 1986	900	1,000
Crazy Eddie	6 6/15/2011	23.13	$8 Entertainment Marketing pending	345.94	620

* Bondholders' coupon raised to 9.875% from 8.125%

** Bonds would have been convertible into $990 of debt, but poison pill raised value to $1,085

Sources: Froley Revy Asset Mgmt. Inc., Los Angeles; Noddings-Calamos Asset Mgmt. Inc., Oak Brook, Ill.

Execs say CEO job elusive

Most corporate pension executives believe the pension management slot opens up promotion to general financial management at their companies, but an even larger number believes the chief executive's job is beyond their reach.

These are among the key findings of a career expectations survey sent by *Pensions & Investment Age* to 500 corporate pension executives. Complete responses were returned by 153 executives.

Sixty-one percent of the respondents believed the pension area was a good place from which to move into general financial management, but 74.5% believed they could not advance to chief executive.

And most of those who thought it was possible to rise to chief executive were either chief financial officer or treasurer of their companies already. Most of the lower-ranked pension executives had set their sights lower.

Even one treasurer commented it was not possible to rise to the rank of chief executive officer if an executive was too long in the pension position.

When asked what they expected their next career move to be, the largest number, 25.5%, said they expected to move into a general financial management position with their current employer; 10.5% said they expected to move to a general financial management position with another company.

However, 11.5% hoped to move to a client liaison position with a money management firm, 4.5% hoped to move to a portfolio management position at a money management firm, and 11.5% hoped to move to an investment management consulting firm.

On average, the executives expected to take their next career steps in 2½ years.

The relatively large number of executives planning to leave the corporate side of the business for the investment management/consulting side reflected considerable job dissatisfaction.

While 28 of the pension executives responding were entirely content with their jobs — especially those who had achieved the rank of chief financial officer or treasurer — the remainder had a wide range of dissatisfactions:

- salary too low for the amount of responsibility;
- too much bureaucracy;
- lack of visibility with corporate top management — out of corporate mainstream;
- lack of importance given to the pension area;
- lack of clear promotion path;
- insufficient staff;
- responsibility without sufficient authority; and
- politics within the organization.

Each of these complaints was mentioned by several pension executives.

One executive commented the greatest frustration was the difficulty of convincing "executive management of the importance of the (pension management) program as compared with those functions which are revenue-producing."

Another executive with a pension fund in the $1 billion to $5 billion range said the greatest source of dissatisfaction was "low pay with significant risk of not being promoted within the company."

Another said the greatest source of dissatisfaction was the "chairman of the investment committee doesn't exhibit enough interest in the activity."

The most common titles among the respondents began with "director" (30) or "manager" (26). Twenty-one were treasurers, 20 were assistant treasurers and the remainder held a variety of titles including chief financial officer, vice president of administration and financial analyst.

Overall, the respondents were well-educated and had significant experience. More than half of them had master's of business administration degrees, 12 had other master's degrees, four had doctorates and three, law degrees.

Interestingly, those with MBAs as their highest level of education were, on average, three years younger than the respondents whose highest level of education was a bachelor's degree.

The average length of career of the respondents was 19 years, the average length of service with the current company was 13.2 years and they had held their current responsibilities for an average of 4.8 years.

Only 32% of the respondents had responsibility for internal management of pension assets, with the average amount managed internally $731 million.

Of the respondents, 20.1% were with funds with less than $250 million; 27.9% were with funds between $250 million and $500 million; 28.6% were with funds between $500 million and $1 billion; 20.1% were with funds between $1 billion and $5 billion; and 3.1% were with funds of more than $5 billion. ■

Pension executives' expected next career move

	% responses
Move to a general financial management position with this company	25.5
Move to an investment management organization in a marketing position	11.5
Move to an investment management consulting firm	11.5
Move to a general financial management position with another company	10.5
Move to a higher pension management position in another company	10
Move to an equivalent position with a larger pension fund	6.5
Move to a higher pension management position in this company	6
Increase responsibilities in present position	5.5
Move to an investment management organization as a portfolio manager	4.5
Retirement	4.5
Other	4

$200 exit charge . . .

Continued from page 2

variable-rate premium, which is in the Ways and Means proposal, and we would like to see it in the Education and Labor Committee as well," Mr. Walker added.

During the subcommittee consideration, Rep. Marge Roukema, R-N.J., proposed taking up a variable-rate premium similar to that of the Ways and Means plan, but with a $45 limit. Her proposal was countered by subcommittee Chairman William Clay, D-Mo., who said a variable-rate premium would do "irreparable harm" to companies in marginal financial condition, forcing them out of business.

Another surprise was a pension portability amendment introduced by Rep. James Jeffords, R-Vermont, and approved during the discussion. The proposal would make it easier for employees leaving a job to roll over a lump-sum pre-retirement pension distribution from that job into a new, portable pension plan maintained by investment managers. Mr. Jeffords said his amendment "is designed to improve retirement income security and address issues of worker dislocation, mobility and competitiveness by enhancing pension investment choice, national savings and capital formation."

Mr. Jeffords' proposal was added over the objections of pension industry trade groups. The groups generally want further study of the portability idea, believing enough consideration hasn't been given to the increased administrative burdens of such a plan and that there has not been enough time given to assess the impact of the Tax Reform Act of 1986.

"Such a move is ill-considered, ill-timed and does not necessarily represent the best interests of the nation's pension systems," said a letter to the committee from eight trade groups, including the APPWP and the ERISA Industry Committee.

The subcommittee proposal also would:

- Allow employers to get reversions from a defined benefit plan without terminating, as long as they leave a cushion of 25% in that plan as well as in every other plan maintained by the control group. If a plan terminates, however, employees would receive the cushion, while the employers would be entitled to any excess funds beyond the 125% level.
- Allow companies reorganizing under Chapter 11 to continue to meet the criteria for distress termination, but an employer could not terminate an underfunded plan if the employer or any member of the controlled group maintains an overfunded plan. ■

Late news

Japan venture OK'd

WASHINGTON — The Federal Reserve System Board of Governors has paved the way for Sumitomo Trust & Banking Co. Ltd., Osaka, Japan, to offer investment advisory services to U.S. and Japanese pension fund advisers through a joint venture with Security Pacific Corp., Los Angeles.

The move into investment advisory services by Japan's second largest trust company is part of Japan's aggressive move into the U.S. financial services market. Sumitomo of Japan has $113.6 billion in assets.

Sumitomo will set up a joint venture with Security Pacific. Sumitomo and Security Pacific each will own 50% of the voting shares of the company, called Sumitrust Security Pacific Investment Managers Inc., Los Angeles.

Initially, the joint venture company will advise on investments in U.S. and Japanese debt and equity securities. Later, the company may market directly to pension funds.

ESOP growth eyed

TRENTON, Mich. — Workers at McLouth Steel Products Co. are negotiating arrangements that eventually would give their employee stock ownership plan 87% of the company.

The ESOP now owns about 13% of the company, which would be converted to a 2% share after a restructuring of the financially troubled steelmaker, said John Skidmore, recording secretary of United Steelworkers of America Local 2659, which represents about 1,800 of McLouth's 2,400 employees. The ESOP covers union and non-union employees.

The restructuring would give McLouth's creditors an 85% share that would be transferred to the ESOP as debts are paid off, Mr. Skidmore said.

Workers and creditors, with assistance from the Michigan Department of Commerce, are negotiating financial arrangements for the stock transfer. The Pension Benefit Guaranty Corp. also is expected to be involved, as the company's predecessor, McLouth Steel Corp., terminated two underfunded pension plans in 1982, during a bankruptcy reorganization.

Consortium formed

PALO ALTO, Calif. — Five pension funds, a major university endowment and a financial services company have formed an oil and gas investment venture to acquire producing properties from failed banks by purchasing loans secured by the properties from the Federal Deposit Insurance Corp.

The funds have committed $87 million to invest in a corporation formed to purchase defaulted bank loans secured by oil and gas properties with the objective of ultimately acquiring the properties.

Participants are the pension plans of Aluminum Co. of America, Pittsburgh; Echlin Inc., Branford, Conn.; Honeywell Inc., Minneapolis; Eastman Kodak Co., Rochester, N.Y.; and the Knights of Columbus, New Haven, Conn.

Aneas Venture Corp., an investment affiliate of the Harvard University endowment, which took the leading role in a similar oil and gas program called Smith Offshore Exploration Co., is the lead investor with a $10 million commitment.

Also investing is Dreyfus Corp., Camden, N.J.

According to one participant, each participant will receive capital stock and covertible debentures in the acquiring corporation, known as Cherokee Resources Inc., as the funds are expended and properties acquired.

Overdraft plans pass

WASHINGTON — Five Federal Reserve Board daylight overdraft proposals were approved without modification at a July 23 board of governors meeting, according to Julius Oreska, manager of electronic payments.

The amendments, expected to take effect in early 1988, include a 25% reduction in the cap for daylight overdrafts. Also, an amendment was passed granting very small institutions immunity from a self-assessment procedure required of all institutions, with the stipulation overdrafts do not exceed $500,000.

Late money movers

- SAN FRANCISCO — Following an asset allocation study, the $2.5 billion Pacific Gas & Electric Co. retirement plan has added two international managers and one real estate manager, according to Sunny Oberoi, director-pension fund management.

The international managers are American Express Asset Management, New York, and Oechsle International Advisors Inc., Boston. Each will manage $30 million.

The fund also will invest $25 million in an apartment fund with JMB Institutional Realty, Chicago, to supplement its $175 million in existing real estate investments.

- ORANGE, Calif. — Bergen Brunswig Corp., with a combined $33 million in retirement plan assets, hired Bankers Trust Co., New York, to replace Security Pacific National Bank, as master trustee.
- WASHINGTON — The newly independent $1.12 billion TWA Pilot Trust Annuity Plan has hired its first international manager team, according to Teddy Hogle, fund administrator.

SBC Portfolio Management International Inc., New York, and BA Investment Management International Ltd., London, each will run $25 million.

- NEW YORK — The $560 million Pan American World Airways Inc. Variable Benefit Retirement Plan for Pilots has added BA Investment Management International Ltd., London, to manage $20 million in international equities, according to George Mehm, manager-pensions/financial.
- FORT WAYNE, Ind. — Zollner Corp. hired two active fixed-income managers for its $37 million defined benefit plan, said Edwin E. Coil, vice president personnel at Zollner.

The managers, hired to run $5 million each, were Denver Investment Advisors Inc., Denver, and Caywood-Christian Capital Management, San Diego.

- CARSON CITY, Nev. — The $2.4 billion Nevada Public Employees' Retirement System hired two fixed-income managers to run $175 million each, said Laura Wallace, chief investment officer.

Hired were State Street Research & Management Co., Boston, and The Patterson Capital Corp., Los Angeles.

- SAN FRANCISCO — The Jewish Community Federation of San Francisco, the Peninsula, Marin and Sonoma Counties has retained Sumitomo Bank of California, San Francisco, as trustee of its $11 million retirement plan, according to Nancy Hair, director of finance.

The federation also retained Fleckenstein Capital Inc., Seattle, to manage a $6 million fixed-income portfolio for its $60 million endowment fund, Ms. Hair said.